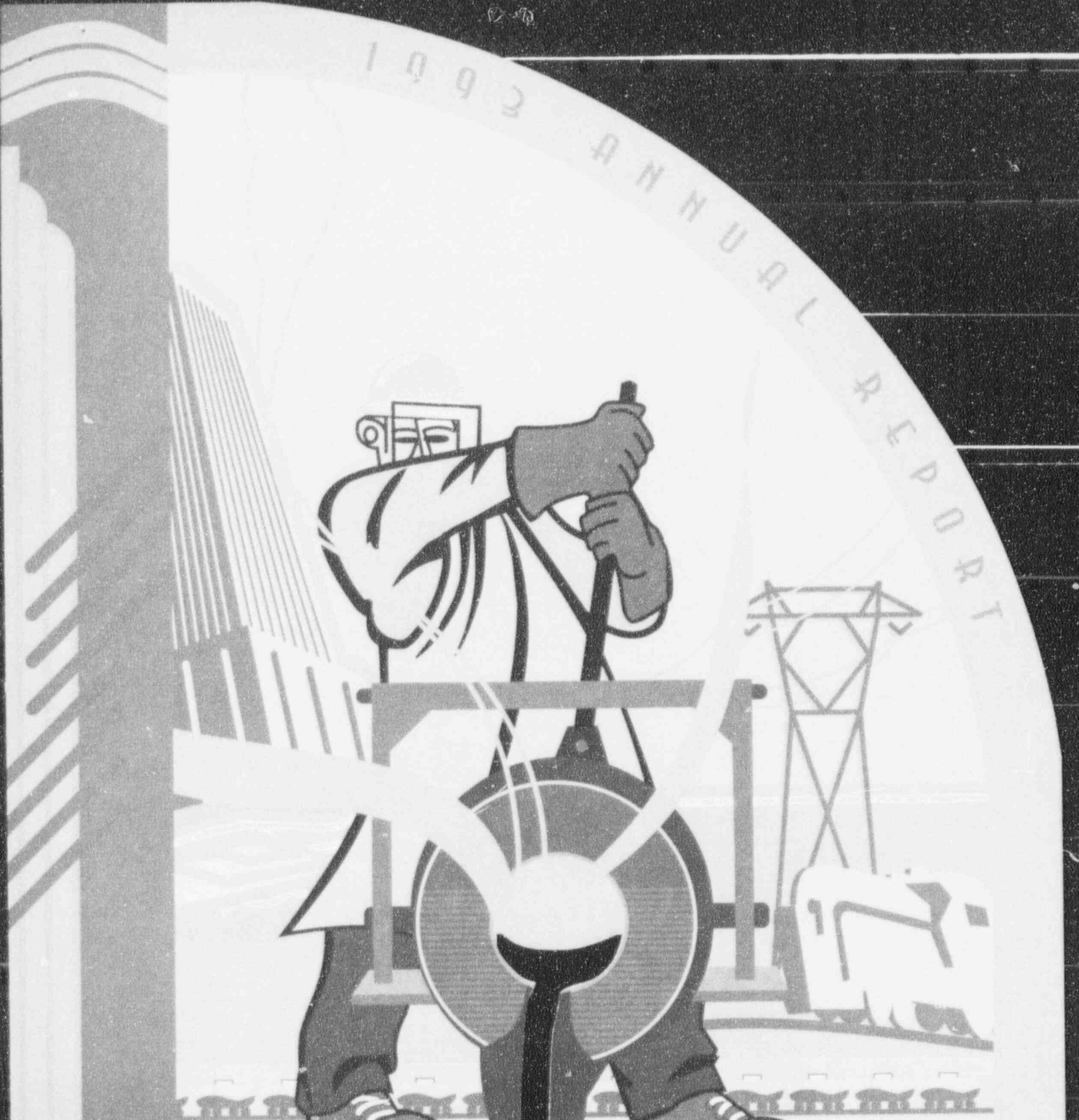
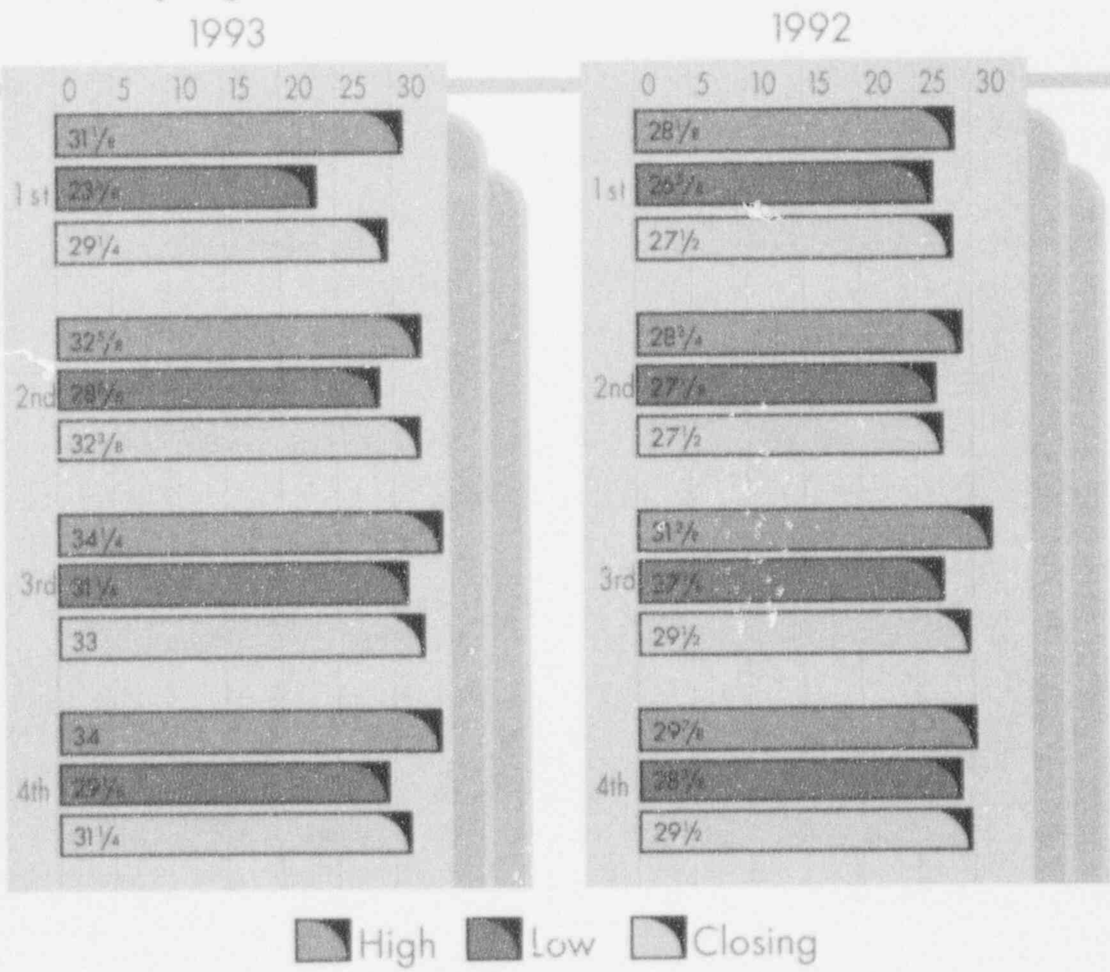
1993 ANNUAL REPORT



Forging success in the heartland

NCIAL HIGHLIGHTS

Quarterly High, Low, and Closing Prices of Common Stock (Dollars)



The chart above sets forth, for the calendar quarters indicated, the reported high and low sales prices of IES Industries Common Stock as reported on the NYSE Composite Tape based on published financial sources.

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IES
INDUSTRIES INC.

Company Profile

The Company, IES Industries, was created in July, 1991, by the merger of IE Industries Inc. and Iowa Southern Inc. IES Industries is known for its clear successes in diversified investments. Its principal subsidiary, IES Utilities, is recognized for its economic development initiatives and customer focus. The Company is dedicated to providing long-term value for IES Industries shareholders.

Financial Highlights of IES Industries

	1993	1992	Increase (Decrease)	Percent Increase (Decrease)
Operating revenue (000's)	**$ 801,266**	$ 678,296	$ 122,970	18
Operating income (000's)	**$ 151,269**	$ 109,024	$ 42,245	39
Net income (000's)	**$ 67,938**	$ 48,711	$ 19,227	39
Earnings per average common share	**$ 2.45**	$ 1.92	$ 0.53	28
Dividends declared per common share	**$ 2.10**	$ 2.10	$ —	—
Construction expenditures (000's)	**$ 163,644**	$ 191,834	$ (28,190)	(15)
Cash flows from operating activities (000's)	**$ 177,260**	$ 124,631	$ 52,629	42
Sales of electricity to customers (Kwh) (000's)	**8,905,522**	7,132,671	1,772,851	25
Utility gas sales (dekatherms) (000's)	**39,006**	37,035	1,971	5
Number of common shareholders	**33,952**	34,838	(886)	(3)
Number of full-time employees	**2,792**	2,702	90	3

REPORT TO SHAREHOLDERS

Transformation. Innovation. Speed. Productivity. Passion to excel. These words express the new paradigm for this age of intense competition, whereby changes are not only inevitable but also necessary to guarantee our continuous success as a winning enterprise.

Indeed, we have experienced success in 1993. We have met virtually all the financial goals and integrated the three utility entities into one cohesive business unit. The tasks and challenges were often difficult and complex. However, we have made good progress in productivity, reduced expenditures and, at the same time, maintained one of the best safety records in our industry. We are grateful to every one in our work force for his or her effort and contributions.

Financial Results

IES Industries posted earnings of $2.45 per share in 1993, significantly improved from $1.92 per share in the previous year. Operating income rose from $109 million in 1992 to $151 million in 1993. Net income increased to $68 million in 1993 compared with $49 million in 1992. Although the return of normal weather conditions in Iowa was helpful to our financial performance, the increase in earnings was also the result of improvements in productivity and higher demand for our products and services. In addition, we have successfully captured the expected merger-related benefits, realizing annual savings estimated at $15 million, and contributing approximately 30 cents in earnings per share. Perhaps, the best overall indication of our performance is the 13% total return to our shareholders (on the basis of annual dividends plus changes in market value), comparing favorably with other utilities in general. The issuance of 2.3 million shares of common stock in February 1993 had no adverse effect on our returns.

Forging Success in the Core Business

The core business continues to be the key to our success. The most significant event of the year in the core utility business occurred on December 31, 1993 when our principal utility subsidiaries, Iowa Electric Light and Power Co. and Iowa Southern Utilities Co. merged to become IES Utilities Inc. This merger was accomplished with broad regulatory support.

The acquisition of the former Union Electric service territory in southeast Iowa had a very positive impact on our utility business. This area, which borders the Mississippi River and the states of Missouri and Illinois, is a major industrial center in the Midwest. I believe that prospective industrial growth in this strategic location will further enhance our future sales and profitability.

In the industrial sector as a whole there was significant growth in electric sales, with over 8 percent increase for the large industrial customers. It was both our competitive pricing and the close working relationship with our customers that made us a winner at the market place. The presence of new enterprises such as PMX, Ajinomoto, Genencor and, now, Weyerhaeuser-affiliated Cedar River Paper Company in our service area will greatly enhance the economy in Iowa and, at the same time, contribute to our own future growth and sales.

In 1993 we completed a three-year natural gas expansion project, adding fifty-two new communities to the gas delivery system. The project included 3.8 million feet, or 732 miles of distribution lines, 9,000 new service connects, and a 7 percent increase in natural gas sales.

For two consecutive years we have successfully managed to control expenses in operations at below-budget levels, and we were able also to reduce capital expenditures through careful planning and resource allocation. Moreover, in both fossil and nuclear generation, we increased operating efficiency and reduced fuel and production costs.

Diversified Strength in the Heartland

Our diversified results in 1993 were satisfactory. The return on equity for the IES Energy business unit was approximately 20%. Whiting Petroleum and Industrial Energy Applications also experienced growth and profitability. These business units are emerging as major success factors in our diversification program.

As I have expressed it in the past, part of our strategic plan is to seek out opportunities to expand in the diversified area. Consequently in 1993 we made a re-entry into the telecommunications business by investing in McLeod Inc. This joint venture creates a new alliance between two old and successful business partners. We are very enthused about this latest project, and expect to gain access to opportunities in the fast expanding information super-highways.

Vision Re-visited

In recent years we have been keenly aware of the changes taking place in our industry to transform from regulated business to market based enterprise. The pace of deregulation and competition is accelerating, and the days of "business as usual" are no longer here. It is today that we must face the evolving reality of tomorrow.

Consolidation and acquisition are essential to give us expanded markets, increased customer base, and opportunities for synergistic savings. However, the framework for winning must be built on transforming our organization into one which is process oriented, customer focused, driven by quality and continuous improvement, and supported by measurable goals and benchmarks. Moreover, we are compelled to go beyond the traditional mechanism of reorganization by in-depth examination of the way we do business, and to make bold decisions in improving operations and efficiency.

In addition, I envision a strong effort on our part in reshaping our corporate culture from internally to externally focused, energized by cross-functional teamwork, speed, innovation, decisiveness and, most important of all, passion for excellence. In the last few years we have acted strategically to position our company for future competition. Our past actions were instrumental to our success in 1993 and, in recent rankings of utility competitiveness, we have scored high marks. However, with a sense of urgency, our transformation efforts must be accelerated to match the rapid pace of change in competition and deregulation. We have succeeded in the past. Guided by our past progress, and confident about our future, I believe that IES Industries is well positioned not only to manage the necessary changes but also to thrive in the new competitive environment.

Salomon Levy and Robert Brewer, dedicated long time outside board members, have elected not to serve on our board after this term. We are grateful for their many years of valuable contribution. I would also like to recognize Richard McGaughy and Benjamin Rosencrants, officers retired in the past year, for their long and devoted service to our company.

Lee Liu

Lee Liu
Chairman of the Board, President & Chief Executive Officer

YEAR IN REVIEW

Generating Growth, the Long-term Pattern for Success

In 1993, the Company's business strategy, developed and implemented in the mid-1980s, brought success to the core utility business as well as the diversified non-utility interests. This year's results showed real economic growth over the IES Industries Inc. (Industries) service area.

The Power of a Leader

IES Industries and its principal subsidiary, IES Utilities Inc. (Utilities), are well positioned for the future. Indeed, the company is "forging success in the heartland." Communities of every size had positive economic news to report in 1993. From existing business expansions to relocations of companies to Utilities' service area, the Company continued to play a key role in industrial and economic development.

The success of our strategy to enhance the overall area economy through an aggressive economic development program is reflected in the positive electric sales figures reported by Utilities in 1993. Electric sales volumes for major industrial customers increased by over 8 percent, on top of a 7 percent increase in 1992 and a 6 percent increase in 1991. These results are over and above the sales increases due to the acquisition of Union Electric's Iowa service territory. Over 20 percent of these increases were from new industrial customers locating in Utilities' service territory. The balance is due to net expansions among existing industrial customers, which is the underlying strength of our business. While competitive electric, natural gas and steam prices are, in part, the cause of this growth, close working partnerships and relationships with customers, communities and government officials are integral to this growth strategy.

Success in the Heartland

There were major victories in economic development activities in Utilities' service territory in 1993. In July, the Cedar River Paper Company, owned in part by Weyerhaeuser Inc., announced plans to build a $230 million paper mill in southwest Cedar Rapids, near IES Utilities' Prairie Creek Generating Station. The plant will use recycled cardboard boxes and waste paper as the raw material to manufacture corrugating medium, the paper in the middle layer of corrugated cardboard. It is expected to become Utilities' largest steam customer and one of its top 10 electric customers.

In Marshalltown, Lennox Industries Inc. announced it would be adding 400 to 600 new manufacturing jobs to its existing operations. IES Industries worked in concert with community leaders to retain the Lennox furnace and air conditioning manufacturing operations in Marshalltown, after the company announced it would be consolidating operations and closing a facility in either Marshalltown or Columbus, Ohio.

Newton scored a similar victory in January, 1994, when Maytag Corp. decided to expand its operations in Newton by adding a new line of energy-efficient washing machines, with the potential for up to 200 new manufacturing jobs, to its current production facility. The community was engaged in head-to-head competition for the new line with a community in Illinois. Again, Industries was an active player in the effort to attract the Maytag expansion to Iowa.

Leon, a community of 2,000 in south-central Iowa, learned in November that its window assembly plant, SNE Enterprises Inc., would be renovated and equipped with state-of-the-art fabrication equipment, creating approximately 80 new jobs when the project is complete.

The north-central Iowa community of Belmond will benefit from Eaton Corporation's announcement in October that it would be expanding its second and third shifts by 50 to 70 employees. Eaton manufactures products for the automotive industry.

Climax Molybdenum, a division of Cypress Minerals, will be consolidating its operations in Ft. Madison in southeast Iowa.

Cargill, Inc. will build a research facility and add two new products at its Eddyville corn products facility.

IES Utilities is positioned to serve its customers as a business partner, providing innovative ideas and energy solutions for businesses already located in its service territory and for those companies considering a relocation or new venture in Utilities' ser-

IES Utilities
Service Territory

vice territory. These efforts are visible in communities of every size and in every region of the state. Utilities is, indeed, forging success in the heartland.

Strong Relationships in the Regulatory Environment

In the past two years, Industries has undertaken two initiatives which required several regulatory approvals: the acquisition of Union Electric's Iowa electric service territory and the merger of the utility businesses. Both of these proposals moved very smoothly and quickly through the regulatory reviews and authorizations. There were no intervenors or government agencies opposing either proposal.

Currently, Utilities has no pricing issues pending with the Iowa Utilities Board. We expect, however, to move toward pricing consolidation for the three current electric pricing districts at the earliest opportunity. Customer, local community and employee uncertainties about price expectations suggest that we move toward consolidation sooner than we had originally planned.

While Utilities' electric sales have increased, average revenues per kilowatt hour have fallen each year since 1990. This demonstrates that Utilities continues to improve its competitive position versus alternatives available to customers. For the longer term, the economic benefits from recent mergers and acquisitions will position Utilities as a strong competitor in the changing utilities market for the benefit of customers, local communities and our shareholders.

Diversified for Greater Strength

The strategic decision to diversify into areas of strength for the company has proven year after year to have been a sound philosophy.

Financial results of IES Energy, including Whiting Petroleum and Industrial Energy Applications, were strong in 1993. These businesses are clearly integral core businesses of Industries.

Although summer flooding affected the businesses in the transportation sector, IES Transportation performed well for the year. For the future, IES Transportation is positioning itself to benefit from the intermodal and technological change opportunities available in that industry.

These diversified businesses provide vital services for many customers and communities that are also supplied by Utilities. These services often complement the growth of Utilities' industrial sales.

Building a Team for Success

Throughout the organization, the company focused on productivity in 1993. Every department was charged with making productivity improvements, working smarter and finding the best ways to accomplish tasks, while also eliminating activities that are not part of our strategic plan.

Fossil plant productivity increased as units were either operated at higher capacity factors or investments were made to improve the efficiency of boiler and turbine-generator systems.

Field Operations employees devoted considerable effort to "work out" sessions focused on identifying changes that would make them more productive. The goal is to take unnecessary work out of their jobs while focusing on teamwork in problem solving.

A task force called PREPARE (Paperwork Reduction, Efficiency, Productivity and Resources Enhancement) worked with employee input to identify options to reduce paperwork, simplify processing and improve overall administrative efficiencies.

Forging Success in the Heartland

From environmental tree-planting efforts like the Branching Out program sponsored by Utilities, to the Good Citizen political process program which encourages employees to take active roles in their communities, to active charitable and volunteer efforts, Industries continues its exemplary corporate citizenship.

IES Industries will continue to play an ever-increasing role in stimulating economic growth in Iowa. A vigorous dedication to providing focused customer service, expanded community involvement and sustained economic vitality will continue to make the company a driving force in the growth of the heartland.

By fusing insight, resources, ambition and ability, Industries will help forge a brighter future for its customers, employees and shareholders.

MANAGEMENT'S DISCUSSION AND ANALYSIS

of the Results of Operations and Financial Condition

The following discussion analyzes significant changes in the components of net income and financial condition from the prior periods for IES Industries Inc. (Industries) and its consolidated subsidiaries (the Company).

RESULTS OF OPERATIONS

Industries' major subsidiaries are IES Utilities Inc. (Utilities) and IES Diversified Inc. (Diversified). Utilities was formed by the merger of Industries' former wholly-owned subsidiaries, Iowa Electric Light and Power Company (IE) and Iowa Southern Utilities Company (IS), effective December 31, 1993. The Company's results of operations and liquidity and capital resources are principally affected by Utilities.

The Company's net income increased $19.2 million and $4.1 million during 1993 and 1992, respectively. The 1993 results reflect Utilities' acquisition of the Iowa service territory of Union Electric Company (UE) (as discussed in Note 2(c) of the Notes to Consolidated Financial Statements) and a return to more normal weather conditions in Utilities' service territory. The floods in Iowa in 1993 did not significantly affect the Company's results of operations. The 1993 results also reflect the recording of certain property write-downs at Diversified and a $2.5 million contribution to the IES Industries Charitable Foundation. The 1992 results were adversely affected by extremely cool summer weather and a mild winter in Utilities' service territory.

The Company's operating income increased $42.2 million and $5.7 million during 1993 and 1992, respectively, as compared to prior years. Reasons for the changes in the results of operations are explained in the following discussion.

ELECTRIC REVENUES

Electric revenues and Kwh sales (excluding off-system sales) for Utilities increased $87.5 million and 25%, respectively, during 1993. In 1992, electric revenues and Kwh sales decreased $19.6 million and 1.5%, respectively. The 1993 sales increase is attributable to the acquisition of the UE territory and a return to more normal weather conditions. After adjusting for these items, underlying electric sales increased 6% in 1993, which reflects the economic growth in the industrial and commercial customer base.

The 1992 Kwh sales decrease reflects unusually mild weather conditions in Utilities' service territory. Residential sales, which are the most weather sensitive, decreased 9.5%. However, industrial sales, which are less sensitive to weather, increased approximately 5.5%. Adjusting for the effects of weather, Kwh sales increased 2.7%, reflecting economic growth in Utilities' service territory.

Utilities' electric tariffs include energy adjustment clauses (EAC) that are designed to currently recover the costs of fuel and the energy portion of purchased power billings to customers. See Note 1(j) of the Notes to Consolidated Financial Statements for discussion of the EAC. The increase in electric revenues for 1993 is primarily because of the sales increase and increased recovery of fuel costs through the EAC.

The revenue decrease in 1992 was primarily related to the lower Kwh sales discussed above and lower off-system sales to other utilities. A rate decrease in the former IS service territory that became effective in September 1991 contributed to the revenue decrease to a lesser extent. These items were partially offset by the effect of the rate increase in the former IE service territory that became effective in December 1991. See Note 3(b) of the Notes to Consolidated Financial Statements for a discussion of the electric rate case in the former IE service territory.

GAS REVENUES

Gas revenues increased (decreased) as compared with the prior year as follows:

	1993	1992
	(in millions)	
Gas Revenues:		
Utilities	**$14.9**	$ 8.4
Industrial Energy Applications, Inc. (IEA)	**(0.1)**	12.4
	$14.8	$20.8

Gas sales in therms (including transported volumes), which also reflect the effects of weather, increased 5.3% in 1993 and were flat in 1992 for Utilities. Adjusting for the effects of weather, Utilities' gas sales decreased 1.5% in 1993 and increased 1.5% in 1992.

Utilities' tariffs include purchased gas adjustment clauses (PGA) that are designed to currently recover the cost of gas sold. See Note 1(j) of the Notes to Consolidated Financial Statements for discussion of the PGA.

Gas revenues increased in 1993 and 1992 substantially because of increased costs of gas recovered through the PGA and the effect of gas rate increases in the former service territory of both IE and IS, which became effective in September 1992. The 1993 sales increase also contributed to the revenue increase for that year. See Note 3(a) of the Notes to Consolidated Financial Statements for a discussion of the gas rate increases.

The increase in IEA's gas revenues for 1992 resulted from increased natural gas marketing and delivery activities.

OTHER REVENUES

Other revenues increased $20.6 million and $15.5 million during 1993 and 1992, respectively. Approximately $10 million of the 1993 increase relates to the acquisition of certain resort properties in March 1993; Diversified previously held an equity interest in a company that owned the properties. Approximately $5 million and $11 million of the 1993 and 1992 increases, respectively, relate to the merger with Whiting Petroleum Corporation (Whiting). (See Note 2(b) of the Notes to Consolidated Financial Statements.) The remaining 1993 and 1992 increases are because of increased operating activities of Diversified's subsidiaries and, in 1993, an increase in Utilities' steam revenues.

OPERATING EXPENSES

Fuel for production increased $14.3 million in 1993 because of increased availability of Utilities' fossil-fueled generating stations, which experienced extended maintenance outages in 1992, and because of increased sales. Fuel for production decreased $17.8 million during 1992 primarily because of a nuclear refueling outage at the Duane Arnold Energy Center (DAEC), maintenance outages at Utilities' fossil-fueled generating stations and the lower electric sales. There were refueling outages in 1993 and 1992, but no such outage in 1991. The decrease in Kwh generation during the refueling and maintenance outages was substantially replaced by purchased power.

Purchased power increased $18.7 million in 1993, of which approximately $14.7 million represents increased energy purchases and approximately $4.0 million is a net increase in capacity charges. The increase in energy purchases is because of the increased Kwh sales. The increased capacity costs reflect the contracts associated with the acquisition of the UE service territory, partially offset by the expiration, in April 1993, of the purchase power agreement with the City of Muscatine. (See Note 12(b) of the Notes to Consolidated Financial Statements.) Purchased power increased $4.5 million in 1992 because of increased purchases during the refueling and maintenance outages, partially offset by lower purchases related to lower off-system sales.

Gas purchased for resale increased $7.6 million and $17.1 million during 1993 and 1992, respectively. The 1993 increase is primarily because of increased per unit gas costs at Utilities and the increased sales. Approximately $12 million of the 1992 increase is related to increased gas activities at IEA; increased per unit gas costs at Utilities also contributed to the increase.

Other operating expenses increased $20.3 million in 1993, of which approximately $9 million relates to the acquisition of the resort properties in March 1993. The remaining 1993 increase is primarily because of increased labor and benefit costs at Utilities and increased operating activities at several of Diversified's subsidiaries, including IEA and Whiting. Other operating expenses increased $0.7 million during 1992. The 1992 increase included $5.6 million related to Whiting. Other than Whiting, expenses decreased $4.9 million, substantially related to a regulatory disallowance of $3.9 million recorded by Utilities in April 1991, after the Iowa Utilities Board (IUB) denied recovery of previously deferred former manufactured gas plant (FMGP) cleanup costs. Lower non-labor costs at the DAEC and lower Nuclear Regulatory Commission fees, partially offset by increased labor and benefit costs at Utilities, also affected 1992.

Maintenance expenses increased $7.5 million and $0.2 million during 1993 and 1992, respectively. The 1993 increase is primarily because of increased maintenance at Utilities' fossil-fueled generating stations and the DAEC. The 1992 increase is attributable to increased maintenance at fossil-fueled generating stations, substantially offset by lower maintenance costs at the DAEC.

Depreciation and amortization increased during both years primarily because of increases in utility plant in service, including the acquisition of the UE territory on December 31, 1992. An increase in the average gas utility property depreciation rate, resulting from an updated depreciation study, also contributed to the 1993 increase. The effect of the Whiting merger also contributed to the 1992 increase. Depreciation and amortization expenses for both years include $5.5 million for the DAEC decommissioning provision, which is collected through rates.

Taxes other than income taxes increased $4.8 million and $1.1 million during 1993 and 1992, respectively, primarily because of increased property taxes. The 1993 increase is related, in part, to the acquisition of the UE service territory.

INTEREST EXPENSE AND OTHER

Interest expense decreased in 1993 because of a lower average interest rate for the year, partially offset by an increase in the average amount of debt outstanding. The lower average interest rate reflects the refinancing of certain long-term debt issues at lower rates and lower cost short-term borrowings outstanding for interim periods between the redemption of certain long-term debt series and the issuance of their long-term replacements. Interest expense increased during 1992 primarily because of an increase in the average amount of debt outstanding and interest expense related to Utilities' reserves for rate refunds.

Miscellaneous, net reflects expense of $2.9 million in 1993 and income of $7.5 million and $3.7 million in 1992 and 1991, respectively. The change for 1993 includes certain property write-downs recorded in 1993 at Diversified, a contribution to the IES Industries Charitable Foundation recorded in 1993, a loss recorded in 1993 on the defeasance of Industries' debentures and a reduction in interest income. These items were partially offset by gains on sales of assets at Whiting and IEA aggregating $2.6 million. The change in 1992 is primarily because of $6.2 million of merger expenses recorded in 1991, partially offset by reduced interest income.

Federal and state income taxes increased $13.2 million and $2.1 million in 1993 and 1992, respectively. The increases result from increases in taxable income and, in 1993, an increase of 1% in the Federal statutory income tax rate. Adjustments of $1.5 million, recorded in the second quarter of 1992, to previously recorded tax reserves also affected the comparability of both years with prior periods.

LIQUIDITY AND CAPITAL RESOURCES

The Company's capital requirements are primarily attributable to Utilities' construction programs, its debt maturities and sinking fund requirements and Industries' diversification activities. In 1993, cash flows from operating activities were $177 million. These funds were primarily used for construction and acquisition expenditures and in support of financing activities.

The Company anticipates that future capital requirements will be met by cash generated from operations and external financing. The level of cash generated from operations is partially dependent upon economic conditions, legislative activities, environmental matters and timely rate relief for Utilities. (See Notes 3 and 12 of the Notes to Consolidated Financial Statements.) Access to the long-term and short-term capital and credit markets is necessary for obtaining funds externally.

Utilities' liquidity and capital resources will be affected by environmental and legislative issues, including the ultimate disposition of remediation issues surrounding the FMGP issue, the Clean Air Act as amended, the National

Energy Policy Act of 1992, and Federal Energy Regulatory Commission (FERC) Order 636, as discussed in Note 12 of the Notes to Consolidated Financial Statements. Consistent with rate making principles of the IUB, management believes that the costs incurred for the above matters will not have a material adverse effect on the financial position or results of operations of the Company.

The IUB has adopted rules which require Utilities to spend 2% of electric and 1.5% of gas gross retail operating revenues annually for energy efficiency programs. Energy efficiency costs in excess of the amount in the most recent electric and gas rate cases are being recorded as regulatory assets by Utilities. At December 31, 1993, Utilities had $18.5 million of such costs recorded as regulatory assets. Utilities will make its initial filing for recovery of the costs in 1994.

CONSTRUCTION AND ACQUISITION PROGRAM

The Company's construction and acquisition program anticipates expenditures of $203 million for 1994, of which approximately $150 million represents expenditures at Utilities and approximately $53 million represents expenditures at Diversified. Of the $150 million of Utilities' expenditures, 44% represents expenditures for electric transmission and distribution facilities, 18% represents fossil-fueled generation expenditures and 10% represents nuclear generation expenditures. Diversified's anticipated expenditures include approximately $25 million at Whiting and an aggregate of $14 million for companies in the transportation industry. Substantial commitments have been made in connection with such expenditures.

The Company's levels of construction and acquisition expenditures are projected to be $193 million in 1995, $176 million in 1996, $181 million in 1997 and $194 million in 1998. It is estimated that approximately 70% of construction expenditures will be provided by cash from operating activities (after payment of dividends) for the five year period 1994-1998.

Capital expenditure and investment and financing plans are subject to continual review and change. The capital expenditure and investment programs may be revised significantly as a result of many considerations including changes in economic conditions, variations in actual sales and load growth compared to forecasts, requirements of environmental, nuclear and other regulatory authorities, acquisition opportunities, the availability of alternate energy and purchased power sources, the ability to obtain adequate and timely rate relief, escalations in construction costs and conservation and energy efficiency programs.

LONG-TERM FINANCING

Other than Utilities' periodic sinking fund requirements, which Utilities intends to meet by pledging additional property, the following debt will mature prior to December 31, 1998:

Issue:	(in millions)
Utilities	$124
Diversified's variable rate credit facility	32
Other subsidiaries' debt	8
	$164

The Company intends to refinance the majority of the debt maturities with long-term debt.

In order to provide an up-to-date instrument for the issuance of bonds, notes or other evidence of indebtedness, Utilities has entered into an Indenture of Mortgage and Deed of Trust dated September 1, 1993 (New Mortgage). The lien of the New Mortgage is subordinate to the lien of Utilities' first mortgages until such time as all bonds issued under the first mortgages have been retired and such mortgages satisfied. The New Mortgage provides for, among other things, the issuance of Collateral Trust Bonds upon the basis of First Mortgage Bonds being issued by Utilities. Accordingly, to the extent that Utilities issues Collateral Trust Bonds on the basis of First Mortgage Bonds, it must comply with the requirements for the issuance of First Mortgage Bonds under Utilities' first mortgages. Under the terms of the New Mortgage, Utilities has covenanted not to issue any additional First Mortgage Bonds under its first mortgages except to provide the basis for issuance of Collateral Trust Bonds.

In November 1993, Utilities entered into arrangements with various cities in the State of Iowa (Cities), whereby the Cities issued an aggregate of $19.4 million of pollution control revenue refunding bonds (PCRRBs), all at 5.5%, due 2023. Each series of the PCRRBs is secured, in part, by payments on a corresponding principal amount of Utilities Collateral Trust Bonds, at 5.5%, due 2023. The proceeds received by Utilities in the transaction were used to redeem $10.2 million of Pollution Control Obligations, 5.75%, due serially 1995-2003 and an aggregate of $9.2 million of First Mortgage Bonds, Series P & Q, 6.7%, due 2006.

In October 1993, Utilities sold $100 million aggregate principal amount of Collateral Trust Bonds, 6% Series, due 2008, and 7% Series, due 2023. A portion of the proceeds from the Collateral Trust Bonds was used to retire short-term debt, with the balance used for general corporate purposes, including support of Utilities' construction program.

In May 1993, Utilities redeemed First Mortgage Bonds Series K, 8-5/8%, principal amount of $20 million, and Series R, 8-1/4%, principal amount of $25 million and First Mortgage Bonds Series 8-3/4%, principal amount of $15 million. The redemptions were completed with proceeds from short-term borrowings and, as discussed above, long-term debt was ultimately issued to replace the short-term borrowings.

In January 1993, $13 million of the Industries Series 1986, 8-1/8% Debentures (originally scheduled to mature in September 1993) were redeemed and a defeasance was completed for the remainder of the debentures ($32 million).

In January 1993, Diversified expanded its variable rate credit facility to $100 million. At December 31, 1993, $32 million was borrowed at 3.5625% under this facility and was due January 21, 1994. The credit facility extends through January 1997, with a one-year extension available to Diversified. Interest rates and maturities are set at the time of borrowing. The interest rate options are based upon quoted market rates and the maturities are less than one year. Diversified intends to continue borrowing under the renewal options of the facility and, accordingly, this debt is classified as long-term in the Consolidated Balance Sheets.

The Indentures pursuant to which Utilities issues First Mortgage Bonds constitute direct first mortgage liens upon substantially all tangible public utility property and contain covenants which restrict the amount of additional bonds which may be issued. At December 31, 1993, such restrictions would have allowed Utilities to issue $258 million of additional First Mortgage Bonds. Utilities intends to file in the first quarter of 1994 with the FERC for authority to issue $250 million of long-term debt. Utilities is currently authorized by the SEC to issue $50 million of long-term debt under an existing registration statement. Utilities expects to issue up to $150 million in 1994. The proceeds are expected to be used for the early redemption of three series of First Mortgage Bonds aggregating $55 million, which have not yet been called, and for general corporate purposes, including support of its construction program.

In the first quarter of 1993, Industries sold 2.3 million shares of its common stock in a public offering. The shares were priced at $30 per share. Net proceeds to Industries from this sale were approximately $67 million.

The Articles of Incorporation of Utilities authorize and limit the aggregate amount of additional shares of Cumulative Preferred Stock and Cumulative Preference Stock which may be issued. At December 31, 1993, Utilities could have issued an additional 700,000 shares of Cumulative Preference Stock and 100,000 additional shares of Cumulative Preferred Stock. In addition, Industries had 5,000,000 shares of Cumulative Preferred Stock, no par value, authorized for issuance, none of which were outstanding at December 31, 1993.

The Company's capitalization ratios at year-end were as follows:

	1993	1992*
Long-term debt	**47%**	50%
Preferred stock	**2**	2
Common equity	**51**	48
	100%	100%

*These ratios consider $45 million of previously outstanding Industries debentures as long-term debt. Such debt was classified as a current liability in the Consolidated Balance Sheet.

SHORT-TERM FINANCING

For interim financing, Utilities is authorized by the FERC to issue, through 1994, up to $125 million of short-term notes. This availability of short-term financing provides Utilities flexibility in the issuance of long-term securities. At December 31, 1993, Utilities had outstanding short-term borrowings of $24 million.

Utilities has two agreements, both of which expire in 1994, with separate financial institutions to sell up to $65 million of its utility accounts receivable. Utilities intends to consolidate the agreements into one new agreement in 1994. At December 31, 1993, Utilities had sold $53.2 million under the agreements.

At December 31, 1993, the Company had bank lines of credit aggregating $77.7 million (Industries - $1.5 million, Utilities - $67.7 million, Diversified - $7.5 million and Whiting - $1.0 million). Utilities was using $19.0 million of its lines to support commercial paper and $7.7 million to support certain pollution control obligations. Commitment fees are paid to maintain these lines and there are no conditions which restrict the unused lines of credit. In addition to the above, Utilities has an uncommitted credit facility with a financial institution whereby it can borrow up to $50 million. Rates are set at the time of borrowing and no fees are paid to maintain this facility. At December 31, 1993, $5.0 million was borrowed at 3.4% under this facility. Utilities also has a letter of credit in the amount of $3.4 million supporting two of its variable rate pollution control obligations.

EFFECTS OF INFLATION

Under the rate making principles prescribed by the regulatory commissions to which Utilities is subject, only the historical cost of plant is recoverable in revenues as depreciation. As a result, Utilities has experienced economic losses equivalent to the current year's impact of inflation on utility plant.

In addition, the regulatory process imposes a substantial time lag between the time when operating and capital costs are incurred and when they are recovered. Utilities does not expect the effects of inflation at current levels to have a significant effect on its results of operations.

Selected Consolidated Quarterly Financial Data (unaudited)

The following unaudited consolidated quarterly data, in the opinion of the Company, includes adjustments, which are normal and recurring in nature, necessary for the fair presentation of the results of operations and financial position.

	Quarter Ended			
	March 31	June 30	September 30	December 31
	(in thousands, except per share amounts)			
1993				
Operating revenues	**$213,077**	**$170,470**	**$212,052**	**$205,667**
Operating income	**34,514**	**27,455**	**57,767**	**31,533**
Net income	**13,935**	**11,740**	**27,957**	**14,306**
Earnings per average common share	**0.53**	**0.42**	**0.99**	**0.51**
1992				
Operating revenues	$181,298	$148,442	$161,320	$187,236
Operating income	24,286	19,091	38,439	27,208
Net income	10,046	8,341	18,555	11,769
Earnings per average common share	0.40	0.33	0.73	0.46

Utilities' results of operation are a significant portion of the consolidated results. The above amounts were affected by seasonal weather conditions and the timing of utility rate changes. Rate activities for Utilities are discussed in Note 3 of the Notes to Consolidated Financial Statements.

The 1993 results are affected by the acquisition of the Iowa service territory from Union Electric Company, as discussed in Note 2(c) of the Notes to Consolidated Financial Statements. The comparability of earnings per average common share is affected by the sale of 2.3 million shares to the public in the first quarter of 1993 as discussed in Note 8 of the Notes to Consolidated Financial Statements. Refer to Management's Discussion and Analysis for a discussion of the adverse effect of weather upon 1992 results, primarily in the third quarter.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors of IES Industries Inc.:

We have audited the accompanying consolidated balance sheets and statements of capitalization of IES Industries Inc. (an Iowa corporation) and subsidiary companies as of December 31, 1993 and 1992, and the related consolidated statements of income, retained earnings and cash flows for each of the three years in the period ended December 31, 1993. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of IES Industries Inc. and subsidiary companies as of December 31, 1993 and 1992, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1993, in conformity with generally accepted accounting principles.

As discussed in Note 7 to the consolidated financial statements, effective January 1, 1993, IES Industries Inc. and subsidiary companies changed their method of accounting for postretirement benefits other than pensions.

Arthur Andersen & Co.

Arthur Andersen & Co.

Chicago, Illinois,
January 28, 1994

MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The Company's management has prepared and is responsible for the presentation, integrity and objectivity of the consolidated financial statements and related information included in this report. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles applied on a consistent basis and, in some cases, include estimates that are based upon management's judgment and the best available information, giving due consideration to materiality. Financial information contained elsewhere in this report is consistent with that in the consolidated financial statements.

The Company maintains a system of internal accounting controls which it believes is adequate to provide reasonable assurance that assets are safeguarded, transactions are executed in accordance with management authorization and the financial records are reliable for preparing the consolidated financial statements. The system of internal accounting controls is supported by written policies and procedures, by a staff of internal auditors and by the selection and training of qualified personnel. The internal audit staff conducts comprehensive audits of the Company's system of internal accounting controls. Management strives to maintain an adequate system of internal controls, recognizing that the cost of such a system should not exceed the benefits derived. In accordance with generally accepted auditing standards, the independent public accountants (Arthur Andersen & Co.), obtained a sufficient understanding of the Company's internal controls to plan their audit and determine the nature, timing and extent of other tests to be performed. No material internal control weaknesses have been reported to management, nor is management aware of any such weaknesses.

The Board of Directors, through its Audit Committee comprised entirely of outside directors, meets periodically with management, the internal auditor and Arthur Andersen & Co. to discuss financial reporting matters, internal control and auditing. To ensure their independence, both the internal auditor and Arthur Andersen & Co. have full and free access to the Audit Committee.

Lee Liu	Blake O. Fisher, Jr.	Richard A. Gabbianelli
Lee Liu	Blake O. Fisher, Jr.	Richard A. Gabbianelli
Chairman of the Board,	Executive Vice President & Chief	Controller & Chief
President & Chief Executive Officer	Financial Officer	Accounting Officer

CONSOLIDATED STATEMENTS OF INCOME

	1993	Year Ended December 31 1992	1991
		(in thousands, except per share amounts)	
Operating revenues:			
Electric	**$ 550,521**	$ 462,999	$ 482,578
Gas	**181,923**	167,082	146,237
Other	**68,822**	48,215	32,723
	801,266	678,296	661,538
Operating expenses:			
Fuel for production	**87,702**	73,368	91,182
Purchased power	**93,449**	74,794	70,245
Gas purchased for resale	**135,830**	128,259	111,206
Other operating expenses	**162,642**	142,348	141,626
Maintenance	**48,913**	41,415	41,265
Depreciation and amortization	**77,012**	69,392	64,088
Taxes other than income taxes	**44,449**	39,696	38,569
	649,997	569,272	558,181
Operating income	**151,269**	109,024	103,357
Interest expense and other:			
Interest expense	**44,440**	45,426	40,599
Allowance for funds used during construction	**(1,972)**	(3,177)	(2,086)
Preferred and preference dividend requirements of subsidiary	**914**	1,729	2,170
Miscellaneous, net	**2,908**	(7,495)	(3,700)
	46,290	36,483	36,983
Income before income taxes	**104,979**	72,541	66,374
Federal and state income taxes	**37,041**	23,830	21,717
Net income	**$ 67,938**	$ 48,711	$ 44,657
Average number of common shares outstanding	**27,764**	25,389	24,156
Earnings per average common share	**$ 2.45**	$ 1.92	$ 1.85

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

	1993	Year Ended December 31 1992	1991
		(in thousands)	
Balance at beginning of year	**$ 202,919**	$ 202,882	$ 207,339
Add:			
Net income	**67,938**	48,711	44,657
Acquisition of Whiting Petroleum Corporation	**—**	5,233	—
Deduct:			
Cash dividends declared on common stock, at per share rates of $2.10, $2.10 and $2.03, respectively	**59,107**	53,350	49,114
Preferred stock redemption premiums of subsidiary	**—**	557	—
Balance at end of year ($18,209,000 restricted as to payment of cash dividends)	**$ 211,750**	$ 202,919	$ 202,882

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

Assets	December 31 1993	1992
	(in thousands)	
Property, plant and equipment, at original cost:		
Utility -		
Plant in service -		
Electric	**$1,707,278**	$ 1,641,536
Gas	**147,956**	137,227
Other	**75,845**	73,970
	1,931,079	1,852,733
Less - Accumulated depreciation	**813,312**	759,754
	1,117,767	1,092,979
Leased nuclear fuel, net of amortization	**51,681**	48,505
Construction work in progress	**41,937**	30,324
	1,211,385	1,171,808
Other, net of accumulated depreciation and amortization of $35,007,000 and $27,835,000, respectively	**124,275**	92,961
	1,335,660	1,264,769
Current assets:		
Cash and temporary cash investments	**7,465**	7,341
Accounts receivable -		
Customer, less reserve	**33,642**	35,243
Other	**10,421**	10,449
Income tax refunds receivable	**9,061**	13,026
Production fuel, at average cost	**14,338**	19,418
Materials and supplies, at average cost	**29,046**	30,876
Adjustment clause balances	**-**	1,217
Regulatory assets	**6,421**	3,636
Prepayments and other	**34,781**	25,132
	145,175	146,338
Investments:		
Nuclear decommissioning trust funds	**28,059**	21,327
Diversified equity investments	**7,089**	15,788
Other	**8,705**	8,107
	43,853	45,222
Other assets:		
Regulatory assets	**149,978**	118,215
Deferred charges and other	**25,153**	19,838
	175,131	138,053
	$1,699,819	$ 1,594,382

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	1993	1992	1991
		Year Ended December 31 (in thousands)	
Cash flows from operating activities:			
Net income	$ 67,938	$ 48,711	$ 44,657
Adjustments to reconcile net income to net cash flows from operating activities -			
Depreciation and amortization	77,012	69,392	64,088
Principal payments under capital lease obligations	11,429	11,725	15,471
Deferred taxes and investment tax credits	9,254	(1,374)	(14,547)
Amortization of deferred charges	860	961	7,778
Refueling outage provision	(4,889)	(5,503)	11,553
Allowance for equity funds used during construction	(824)	(1,831)	(820)
(Gain) loss on disposition of assets, net	(3,001)	143	164
Other	8,176	(4,258)	(3,487)
Other changes in assets and liabilities -			
Accounts receivable	(8,861)	(4,000)	(5,920)
Sale of utility accounts receivable	10,490	7,710	(5,000)
Production fuel, materials and supplies	5,836	83	(962)
Accounts payable	7,984	(3,894)	3,697
Accrued taxes	7,549	7,111	(24,922)
Provision for rate refunds	(350)	7,528	(197)
Adjustment clause balances	6,366	(4,122)	184
Prepayments and other	(9,649)	(4,654)	(2,676)
Deferred energy efficiency costs	(9,747)	(6,877)	(1,905)
Other	1,687	7,780	4,019
Net cash flows from operating activities	177,260	124,631	91,175
Cash flows from financing activities:			
Dividends declared on common stock	(59,107)	(53,350)	(49,114)
Dividends payable	1,727	13,679	113
Proceeds from issuance of common stock	79,746	10,726	8,052
Net change in IES Diversified Inc. credit facility	25,000	7,000	—
Proceeds from issuance of other long-term debt	121,734	107,400	95,505
Sinking fund requirements and reductions in long-term debt and preferred and preference stock	(126,803)	(70,158)	(33,460)
Net change in short-term borrowings	(68,000)	51,100	(9,100)
Principal payments under capital lease obligations	(11,276)	(12,337)	(14,738)
Other	46	(248)	(92)
Net cash flows from financing activities	(36,933)	53,812	(2,834)
Cash flows from investing activities:			
Construction and acquisition expenditures -			
Utility	(113,212)	(171,013)	(105,009)
Other	(50,432)	(20,821)	(14,812)
Nuclear decommissioning trust funds	(5,532)	(5,532)	(5,505)
Investments in unconsolidated affiliates	(5,373)	(686)	—
Proceeds from disposition of assets	28,790	1,106	299
Other	5,556	1,878	(2,617)
Net cash flows from investing activities	(140,203)	(195,068)	(127,644)
Net increase (decrease) in cash and temporary cash investments	124	(16,625)	(39,303)
Cash and temporary cash investments at beginning of year	7,341	23,966	63,269
Cash and temporary cash investments at end of year	$ 7,465	$ 7,341	$ 23,966
Supplemental cash flow information:			
Cash paid during the year for -			
Interest	$ 45,153	$ 42,480	$ 41,284
Income taxes	$ 22,179	$ 23,539	$ 55,720
Noncash investing and financing activities -			
Capital lease obligations incurred	$ 14,605	$ 1,973	$ 11,874

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of Consolidation -

The Consolidated Financial Statements include the accounts of IES Industries Inc. (Industries) and its consolidated subsidiaries (collectively the Company). All significant subsidiaries for which Industries owns directly or indirectly more than 50% of the voting stock are included as consolidated subsidiaries. Industries' wholly-owned subsidiaries are IES Utilities Inc. (Utilities) and IES Diversified Inc. (Diversified). Utilities was formed as the result of the merger of Industries' former wholly-owned subsidiaries Iowa Electric Light and Power Company (IE) and Iowa Southern Utilities Company (IS), effective December 31, 1993, as discussed in Note 2(a).

Investments for which the Company has at least a 20% interest are generally accounted for under the equity method of accounting. These investments are stated at acquisition cost, increased or decreased for the Company's equity in undistributed net income or loss, which is included in "Interest expense and other - Miscellaneous, net" in the Consolidated Statements of Income.

All significant intercompany balances and transactions have been eliminated from the Consolidated Financial Statements, other than energy related transactions affecting Utilities. Such transactions are made at prices which approximate market value and the associated costs are recoverable from Utilities' customers through the rate making process.

Certain prior period amounts have been reclassified on a basis consistent with the 1993 presentation.

(b) Regulation -

Industries is currently exempt from regulation under the Public Utility Holding Company Act of 1935. Utilities is subject to regulation by the Iowa Utilities Board (IUB) and the Federal Energy Regulatory Commission (FERC).

(c) Regulatory Assets -

Utilities is subject to the provisions of Statement of Financial Accounting Standards No. 71 "Accounting for the Effects of Certain Types of Regulation" (SFAS 71). The regulatory assets represent probable future revenue to Utilities associated with certain incurred costs as these costs are recovered through the rate making process. At December 31, 1993, regulatory assets were comprised of the following items, and were reflected in the Consolidated Balance Sheets as follows:

	Regulatory Assets
	(in millions)
Deferred income taxes (Note 1(d))	$ 88.6
Energy efficiency programs	18.5
Employee pension and benefit costs (Note 7)	14.1
Environmental liabilities (Note 12(f))	12.9
National Energy Policy Act of 1992 (Note 12(h))	12.5
FERC Order No. 636 transition costs (Note12(i))	5.0
Cancelled plant costs	3.3
Regulatory study costs	1.5
	156.4
Less current amounts	6.4
	$150.0

Refer to the individual footnotes referenced above for a discussion of the specific items reflected in regulatory assets. The amounts reflected for energy efficiency programs are a result of an IUB mandate whereby 2% of electric and 1.5% of gas gross retail operating revenues are to be expended annually for energy efficiency programs. Under this mandate, Utilities will make its initial filing for recovery of the costs in 1994.

(d) Income Taxes -

The Company follows the liability method of accounting for deferred income taxes, which requires the establishment of deferred tax liabilities and assets, as appropriate, for all temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. Deferred taxes are recorded using currently enacted tax rates.

Except as noted below, income tax expense includes provisions for deferred taxes to reflect the tax effects of temporary differences between the time when certain costs are recorded in the accounts and when they are deducted for tax return purposes. As temporary differences reverse, the related accumulated deferred income taxes are reversed to income. Investment tax credits for Utilities have been deferred and are subsequently credited to income over the average lives of the related property.

Consistent with rate making practices for Utilities, deferred tax expense is not recorded for certain temporary differences (primarily related to utility property, plant and equipment). Accordingly, Utilities has recorded deferred tax liabilities and regulatory assets, as discussed in Note 1(c).

(e) Temporary Cash Investments -

Temporary cash investments are stated at cost which approximates market value and are considered cash equivalents for the Consolidated Statements of Cash Flows. These investments consist of short-term liquid investments which have maturities of less than 90 days from the date of acquisition.

(f) Depreciation of Utility Property, Plant and Equipment -

The average rates of depreciation for electric and gas properties of Utilities, including Utilities' nuclear generating station, the Duane Arnold Energy Center (DAEC), which is being depreciated over a 36 year life using a remaining life method, were as follows:

	1993	1992	1991
Electric	**3.5%**	3.5%	3.5%
Gas	**3.5%**	3.0%	3.0%

Based on the most recent site specific study, completed in 1992, Utilities' 70% share of the estimated cost to decommission the DAEC and return the underlying property to its original state approximated $223 million in 1992 dollars. The study is based on the prompt removal and dismantling decommissioning alternative and is assumed to begin at the end of the DAEC's operating license in 2014. The level of annual recovery through rates of decommissioning costs is $5.5 million, which is deposited in external trust funds, and is based on a remaining life recovery method. The annual recovery level is reviewed and, if necessary, adjusted in each rate case. Decommissioning costs, at the level collected through rates, are included in "Depreciation and amortization" expense in the Consolidated Statements of Income. In addition to the $28.1 million invested in the external trust funds as indicated in the Consolidated Balance Sheets, Utilities has an internal decommissioning reserve of $21.7 million recorded as accumulated depreciation. Earnings on the external funds are recognized as income and a corresponding amount of interest expense is recorded for the reinvestment of the earnings.

(g) Allowance for Funds Used During Construction -

The allowance for funds used during construction (AFC), which represents the cost during the construction period of funds used for construction purposes, is capitalized by Utilities as a component of the cost of utility plant. The amount of AFC applicable to debt funds and to other (equity) funds, a non-cash item, is computed in accordance with the prescribed FERC formula. The aggregate gross rates used by Utilities for 1993-1991 were 5.7%, 9.2% and 8.5%, respectively.

(h) Oil and Gas Properties -

Whiting Petroleum Company (Whiting), a wholly-owned subsidiary of Diversified, uses the full cost method of accounting for its oil and gas properties. Accordingly, all costs of acquisition, exploration and development of properties are capitalized. Amortization of proved oil and gas properties is calculated using the units of production method. At December 31, 1993, capitalized costs less related accumulated amortization do not exceed the sum of (1) the present value of future net revenue from estimated production of proved oil and gas reserves (calculated using current prices); plus (2) the cost of properties not being amortized, if any; plus (3) the lower of cost or estimated fair value of unproved properties included in the costs being amortized, if any; less (4) income tax effects related to differences in the book and tax basis of oil and gas properties.

(i) Operating Revenues -

The Company accrues revenues for services rendered but unbilled at month-end in order to more properly match revenues with expenses.

(j) Adjustment Clauses -

Utilities' tariffs provide for subsequent adjustments to its electric and natural gas rates for changes in the cost of fuel and purchased energy and in the cost of natural gas purchased for resale. Changes in the under/over collection of these costs are reflected in "Fuel for production" and "Gas purchased for resale" in the Consolidated Statements of Income. The cumulative effects are reflected in the Consolidated Balance Sheets as a current asset or current liability, pending automatic reflection in future billings to customers.

(k) Accumulated Refueling Outage Provision -

The IUB allows Utilities to collect, as part of its base revenues, funds to offset other operating and maintenance expenditures incurred during refueling outages at the DAEC. As these revenues are collected, an equivalent amount is charged to other operating and maintenance expenses with a corresponding credit to a reserve. During a refueling outage, the reserve is reversed to offset the refueling outage expenditures.

(2) MERGERS AND ACQUISITIONS:

(a) Merger of IE and IS -

On June 4, 1993, Industries announced that its wholly-owned utility subsidiaries, IE and IS, filed applications for regulatory authority to merge. The merger became effective December 31, 1993, following receipt of all necessary Boards of Directors, shareholder and regulatory approvals.

IE is the surviving corporation and has been renamed IES Utilities Inc. The separate existence of IS has ceased. Utilities serves a total of 325,000 electric and 170,000 natural gas retail customers as well as 32 resale customers in more than 550 Iowa communities.

The merger was accounted for under a method of accounting similar to pooling of interests, which combined the ownership interests of IE and IS. The assets and liabilities of IE and IS were combined at their recorded amounts as of the merger date.

(b) Merger with Whiting -

Effective February 18, 1992, Whiting merged with a subsidiary of Industries. The merger, which was accounted for as a pooling of interests, was not material to the Consolidated Financial Statements and, accordingly, prior period Consolidated Financial Statements have not been restated and are presented as if the merger had occurred on January 1, 1992.

(c) Acquisition of Iowa Service Territory of Union Electric Company -

Effective December 31, 1992, IE acquired the Iowa distribution system and a portion of the Iowa transmission facilities of Union Electric Company (UE) for $65.0 million in cash. The acquisition was accounted for as a purchase. The net book value of the acquired assets was approximately $34.4 million and the amount of the purchase price in excess of the book value ($30.6 million) has been recorded as an acquisition adjustment. The acquisition adjustment is being amortized over the life of the property and is included in "Interest expense and other - Miscellaneous, net" in the Consolidated Statements of Income. Recovery of the acquisition adjustment through rates will be addressed in future Utilities' rate proceedings. See Note 12(b) for a discussion of the purchase power contracts between Utilities and UE associated with this acquisition.

(3) RATE MATTERS:

(a) Gas Rate Cases -

Former IE Service Territory

In July 1992, IE applied to the IUB for an increase in gas rates of $6.3 million annually, or 5.9%. Effective September 30, 1992, the IUB authorized an interim increase of $5.4 million, subject to refund. On April 30, 1993, the IUB issued its "Final Decision and Order," which approved stipulations between IE and certain intervenors providing for an annual increase in revenues of $5.5 million. IE did not have any refund liability as a result of the Order.

Former IS Service Territory

In July 1992, IS applied to the IUB for an increase in gas rates of $2.3 million annually, or 6.2%. Effective September 30, 1992, the IUB authorized an interim increase of $1.9 million, subject to refund. In February 1993, the IUB approved stipulations between IS and certain intervenors in the proceeding that provided for an annual increase in revenues of $1.6 million. As a result of the Order, IS refunded approximately $0.2 million, including interest, in the second quarter of 1993.

(b) 1991 Electric Rate Case -

In October 1991, IE applied to the IUB for an increase in interim and final retail electric rates of $18.9 million annually, or 6.0%. The IUB approved an interim rate increase of $15.6 million, annually, which became effective in December 1991, subject to refund.

In July 1992, the IUB issued its "Final Decision and Order" approving an annual electric rate increase of $7.9 million. The application of double leverage ratemaking theory to IE's capital structure accounted for approximately $4 million of the difference between the interim rate level and the amount allowed in the Order. After a limited rehearing of the double leverage issue, the IUB issued its "Order On Rehearing" in December 1992, which affirmed the original decision.

IE appealed the IUB's Order to the Iowa District Court (Court). In December 1993, the Court issued its decision, which upholds the IUB's Order. Utilities did not appeal the Court's decision to the Iowa Supreme Court.

In the second quarter of 1993, IE refunded approximately $4.1 million, including interest, which represented a refund down to the level of revenues that would have resulted had it won the appeal. An additional refund, including interest, of $8.7 million is required at December 31, 1993, as a result of the Court's decision. The refund is expected to be completed in the second quarter of 1994. There will be no effect on electric revenues, net income and earnings per average common share when the additional refund is made because Utilities has been reserving for the effect of the additional refund.

(4) LEASES:

Utilities has a capital lease covering its 70% undivided interest in nuclear fuel purchased for the DAEC. Future purchases of fuel may also be added to the fuel lease. This lease provides for annual one year extensions and Utilities intends to exercise such extensions through the DAEC's operating life. Interest costs under the lease are based on commercial paper costs incurred by the lessor. Utilities is responsible for the payment of taxes, maintenance, operating cost, risk of loss and insurance relating to the leased fuel.

The lessor has an $80 million credit agreement with a bank supporting the nuclear fuel lease. The agreement continues on a year to year basis, unless either party provides at least a three year notice of termination; no such notice of termination has been provided by either party.

Annual nuclear fuel lease expenses include the cost of fuel, based on the quantity of heat produced for the generation of electric energy, plus the lessor's interest costs related to fuel in the reactor and administrative expenses. These expenses (included in "Fuel for production" in the Consolidated Statements of Income) for 1993-1991 were $12.4 million, $12.9 million and $17.5 million, respectively.

The Company's operating lease rental expenses for 1993-1991 were $9.1 million, $7.7 million and $7.4 million, respectively.

The Company's future minimum lease payments by year are as follows:

Year	Capital Lease	Operating Leases
	(in thousands)	
1994	$16,994	$ 7,901
1995	11,970	7,771
1996	10,784	6,191
1997	9,940	4,348
1998	4,145	4,351
1999-2003 ..	4,111	13,013
	57,944	$43,575
Less: Amount representing interest	6,263	
Present value of net minimum capital lease payments	$51,681	

CONSOLIDATED STATEMENTS OF CAPITALIZATION

	December 31 1993	1992
	(in thousands)	
Common equity:		
Common stock - no par value - authorized 48,000,000 shares; outstanding 28,304,188 and 25,556,963 shares, respectively	**$ 360,301**	$ 279,810
Retained earnings	**211,750**	202,919
	572,051	482,729
Cumulative preferred stock of IES Utilities Inc.	**18,320**	18,320
Long-term debt:		
IES Industries Inc. -		
Series 1986 debentures, 8-1/8%, retired in 1993	**—**	45,000
IES Utilities Inc. -		
Collateral Trust Bonds -		
6% series, due 2008	**50,000**	—
7% series, due 2023	**50,000**	—
5.5% series, due 2023	**19,400**	—
	119,400	—
First Mortgage Bonds -		
Series J, 6-1/4%, due 1996	**15,000**	15,000
Series K, 8-5/8%, retired in 1993	**—**	20,000
Series L, 7-7/8%, due 2000	**15,000**	15,000
Series M, 7-5/8%, due 2002	**30,000**	30,000
Series P & Q, 6.70%, retired in 1993	**—**	9,200
Series R, 8-1/4%, retired in 1993	**—**	25,000
Series W, 9-3/4%, due 1995	**50,000**	50,000
Series X, 9.42%, due 1995	**50,000**	50,000
Series Y, 8-5/8%, due 2001	**60,000**	60,000
Series Z, 7.60%, due 1999	**50,000**	50,000
6-1/8% series, due 1997	**8,000**	8,000
9-1/8% series, due 2001	**21,000**	21,000
7-3/8% series, due 2003	**10,000**	10,000
7-1/4% series, due 2007	**30,000**	30,000
8-3/4% series, retired in 1993	**—**	15,000
	339,000	408,200
Pollution control obligations -		
5.75%, retired in 1993	**—**	10,200
4.90% to 5.75%, due serially 1994 to 2003	**3,920**	4,144
5.95%, due 2007, secured by First Mortgage Bonds	**10,000**	10,000
Variable rate (3.15% at December 31, 1993), due 2000 to 2010	**11,100**	11,100
	25,020	35,444
Total IES Utilities Inc.	**483,420**	443,644
IES Diversified Inc. -		
Variable rate credit facility (3.5625% at December 31, 1993)	**32,000**	7,000
Other subsidiaries' debt maturing through 2013	**10,510**	9,108
	525,930	504,752
Unamortized debt premium and (discount), net	**(3,123)**	(1,922)
	522,807	502,830
Less - Amount due within one year	**464**	45,398
	522,343	457,432
	$1,112,714	$ 958,481

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Capitalization and Liabilities	December 31 1993	1992
	(in thousands)	
Capitalization (See Consolidated Statements of Capitalization):		
Common stock	$ 360,301	$ 279,810
Retained earnings	211,750	202,919
Total common equity	572,051	482,729
Cumulative preferred stock of IES Utilities Inc.	18,320	18,320
Long-term debt	522,343	457,432
	1,112,714	958,481
Current liabilities:		
Short-term borrowings	24,000	92,000
Capital lease obligations	15,345	13,211
Sinking funds and maturities	464	45,398
Accounts payable	53,980	46,667
Accrued interest	9,471	10,415
Accrued taxes	42,368	38,784
Accumulated refueling outage provision	2,660	7,549
Dividends payable	15,519	13,792
Adjustment clause balances	5,149	-
Provision for rate refund liability	8,670	9,020
Other	32,667	22,317
	210,293	299,153
Long-term liabilities:		
Capital lease obligations	36,336	35,294
Liability under National Energy Policy Act of 1992	11,984	12,054
Environmental liabilities	9,340	10,415
Other	40,562	25,944
	98,222	83,707
Deferred credits:		
Accumulated deferred income taxes	236,131	205,698
Accumulated deferred investment tax credits	42,459	47,343
	278,590	253,041
Commitments and contingencies (Note 12)		
	$ 1,699,819	$ 1,594,382

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of Consolidation -

The Consolidated Financial Statements include the accounts of IES Industries Inc. (Industries) and its consolidated subsidiaries (collectively the Company). All significant subsidiaries for which Industries owns directly or indirectly more than 50% of the voting stock are included as consolidated subsidiaries. Industries' wholly-owned subsidiaries are IES Utilities Inc. (Utilities) and IES Diversified Inc. (Diversified). Utilities was formed as the result of the merger of Industries' former wholly-owned subsidiaries Iowa Electric Light and Power Company (IE) and Iowa Southern Utilities Company (IS), effective December 31, 1993, as discussed in Note 2(a).

Investments for which the Company has at least a 20% interest are generally accounted for under the equity method of accounting. These investments are stated at acquisition cost, increased or decreased for the Company's equity in undistributed net income or loss, which is included in "Interest expense and other - Miscellaneous, net" in the Consolidated Statements of Income.

All significant intercompany balances and transactions have been eliminated from the Consolidated Financial Statements, other than energy related transactions affecting Utilities. Such transactions are made at prices which approximate market value and the associated costs are recoverable from Utilities' customers through the rate making process.

Certain prior period amounts have been reclassified on a basis consistent with the 1993 presentation.

(b) Regulation -

Industries is currently exempt from regulation under the Public Utility Holding Company Act of 1935. Utilities is subject to regulation by the Iowa Utilities Board (IUB) and the Federal Energy Regulatory Commission (FERC).

(c) Regulatory Assets -

Utilities is subject to the provisions of Statement of Financial Accounting Standards No. 71 "Accounting for the Effects of Certain Types of Regulation" (SFAS 71). The regulatory assets represent probable future revenue to Utilities associated with certain incurred costs as these costs are recovered through the rate making process. At December 31, 1993, regulatory assets were comprised of the following items, and were reflected in the Consolidated Balance Sheets as follows:

	Regulatory Assets
	(in millions)
Deferred income taxes (Note 1(d))	$ 88.6
Energy efficiency programs	18.5
Employee pension and benefit costs (Note 7)	14.1
Environmental liabilities (Note 12(f))	12.9
National Energy Policy Act of 1992 (Note 12(h))	12.5
FERC Order No. 636 transition costs (Note12(i))	5.0
Cancelled plant costs	3.3
Regulatory study costs	1.5
	156.4
Less current amounts	6.4
	$150.0

Refer to the individual footnotes referenced above for a discussion of the specific items reflected in regulatory assets. The amounts reflected for energy efficiency programs are a result of an IUB mandate whereby 2% of electric and 1.5% of gas gross retail operating revenues are to be expended annually for energy efficiency programs. Under this mandate, Utilities will make its initial filing for recovery of the costs in 1994.

(d) Income Taxes -

The Company follows the liability method of accounting for deferred income taxes, which requires the establishment of deferred tax liabilities and assets, as appropriate, for all temporary differences between the tax basis of assets and liabilities and the amounts reported in the financial statements. Deferred taxes are recorded using currently enacted tax rates.

Except as noted below, income tax expense includes provisions for deferred taxes to reflect the tax effects of temporary differences between the time when certain costs are recorded in the accounts and when they are deducted for tax return purposes. As temporary differences reverse, the related accumulated deferred income taxes are reversed to income. Investment tax credits for Utilities have been deferred and are subsequently credited to income over the average lives of the related property.

Consistent with rate making practices for Utilities, deferred tax expense is not recorded for certain temporary differences (primarily related to utility property, plant and equipment). Accordingly, Utilities has recorded deferred tax liabilities and regulatory assets, as discussed in Note 1(c).

(e) Temporary Cash Investments -

Temporary cash investments are stated at cost which approximates market value and are considered cash equivalents for the Consolidated Statements of Cash Flows. These investments consist of short-

CONSOLIDATED STATEMENTS OF CASH FLOWS

	1993	1992	1991
		Year Ended December 31 (in thousands)	
Cash flows from operating activities:			
Net income	$ 67,938	$ 48,711	$ 44,657
Adjustments to reconcile net income to net cash flows from operating activities -			
Depreciation and amortization	77,012	69,392	64,088
Principal payments under capital lease obligations	11,429	11,725	15,471
Deferred taxes and investment tax credits	9,254	(1,374)	(14,547)
Amortization of deferred charges	860	961	7,778
Refueling outage provision	(4,889)	(5,503)	11,553
Allowance for equity funds used during construction	(824)	(1,831)	(820)
(Gain) loss on disposition of assets, net	(3,001)	143	164
Other	8,176	(4,258)	(3,487)
Other changes in assets and liabilities -			
Accounts receivable	(8,861)	(4,000)	(5,920)
Sale of utility accounts receivable	10,490	7,710	(5,000)
Production fuel, materials and supplies	5,836	83	(962)
Accounts payable	7,984	(3,894)	3,697
Accrued taxes	7,549	7,111	(24,922)
Provision for rate refunds	(350)	7,528	(197)
Adjustment clause balances	6,366	(4,122)	184
Prepayments and other	(9,649)	(4,654)	(2,676)
Deferred energy efficiency costs	(9,747)	(6,877)	(1,905)
Other	1,687	7,780	4,019
Net cash flows from operating activities	177,260	124,631	91,175
Cash flows from financing activities:			
Dividends declared on common stock	(59,107)	(53,350)	(49,114)
Dividends payable	1,727	13,679	113
Proceeds from issuance of common stock	79,746	10,726	8,052
Net change in IES Diversified Inc. credit facility	25,000	7,000	—
Proceeds from issuance of other long-term debt	121,734	107,400	95,505
Sinking fund requirements and reductions in long-term debt and preferred and preference stock	(126,803)	(70,158)	(33,460)
Net change in short-term borrowings	(68,000)	51,100	(9,100)
Principal payments under capital lease obligations	(11,276)	(12,337)	(14,738)
Other	46	(248)	(92)
Net cash flows from financing activities	(36,933)	53,812	(2,834)
Cash flows from investing activities:			
Construction and acquisition expenditures -			
Utility	(113,212)	(171,013)	(105,009)
Other	(50,432)	(20,821)	(14,812)
Nuclear decommissioning trust funds	(5,532)	(5,532)	(5,505)
Investments in unconsolidated affiliates	(5,373)	(686)	—
Proceeds from disposition of assets	28,790	1,106	299
Other	5,556	1,878	(2,617)
Net cash flows from investing activities	(140,203)	(195,068)	(127,644)
Net increase (decrease) in cash and temporary cash investments	124	(16,625)	(39,303)
Cash and temporary cash investments at beginning of year	7,341	23,966	63,269
Cash and temporary cash investments at end of year	$ 7,465	$ 7,341	$ 23,966
Supplemental cash flow information:			
Cash paid during the year for -			
Interest	$ 45,153	$ 42,480	$ 41,284
Income taxes	$ 22,179	$ 23,539	$ 55,720
Noncash investing and financing activities -			
Capital lease obligations incurred	$ 14,605	$ 1,973	$ 11,874

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

(c) Acquisition of Iowa Service Territory of Union Electric Company -

Effective December 31, 1992, IE acquired the Iowa distribution system and a portion of the Iowa transmission facilities of Union Electric Company (UE) for $65.0 million in cash. The acquisition was accounted for as a purchase. The net book value of the acquired assets was approximately $34.4 million and the amount of the purchase price in excess of the book value ($30.6 million) has been recorded as an acquisition adjustment. The acquisition adjustment is being amortized over the life of the property and is included in "Interest expense and other - Miscellaneous, net" in the Consolidated Statements of Income. Recovery of the acquisition adjustment through rates will be addressed in future Utilities' rate proceedings. See Note 12(b) for a discussion of the purchase power contracts between Utilities and UE associated with this acquisition.

(3) RATE MATTERS:

(a) Gas Rate Cases -

Former IE Service Territory

In July 1992, IE applied to the IUB for an increase in gas rates of $6.3 million annually, or 5.9%. Effective September 30, 1992, the IUB authorized an interim increase of $5.4 million, subject to refund. On April 30, 1993, the IUB issued its "Final Decision and Order," which approved stipulations between IE and certain intervenors providing for an annual increase in revenues of $5.5 million. IE did not have any refund liability as a result of the Order.

Former IS Service Territory

In July 1992, IS applied to the IUB for an increase in gas rates of $2.3 million annually, or 6.2%. Effective September 30, 1992, the IUB authorized an interim increase of $1.9 million, subject to refund. In February 1993, the IUB approved stipulations between IS and certain intervenors in the proceeding that provided for an annual increase in revenues of $1.6 million. As a result of the Order, IS refunded approximately $0.2 million, including interest, in the second quarter of 1993.

(b) 1991 Electric Rate Case -

In October 1991, IE applied to the IUB for an increase in interim and final retail electric rates of $18.9 million annually, or 6.0%. The IUB approved an interim rate increase of $15.6 million, annually, which became effective in December 1991, subject to refund.

In July 1992, the IUB issued its "Final Decision and Order" approving an annual electric rate increase of $7.9 million. The application of double leverage ratemaking theory to IE's capital structure accounted for approximately $4 million of the difference between the interim rate level and the amount allowed in the Order. After a limited rehearing of the double leverage issue, the IUB issued its "Order On Rehearing" in December 1992, which affirmed the original decision.

IE appealed the IUB's Order to the Iowa District Court (Court). In December 1993, the Court issued its decision, which upholds the IUB's Order. Utilities did not appeal the Court's decision to the Iowa Supreme Court.

In the second quarter of 1993, IE refunded approximately $4.1 million, including interest, which represented a refund down to the level of revenues that would have resulted had it won the appeal. An additional refund, including interest, of $8.7 million is required at December 31, 1993, as a result of the Court's decision. The refund is expected to be completed in the second quarter of 1994. There will be no effect on electric revenues, net income and earnings per average common share when the additional refund is made because Utilities has been reserving for the effect of the additional refund.

(4) LEASES:

Utilities has a capital lease covering its 70% undivided interest in nuclear fuel purchased for the DAEC. Future purchases of fuel may also be added to the fuel lease. This lease provides for annual one year extensions and Utilities intends to exercise such extensions through the DAEC's operating life. Interest costs under the lease are based on commercial paper costs incurred by the lessor. Utilities is responsible for the payment of taxes, maintenance, operating cost, risk of loss and insurance relating to the leased fuel.

The lessor has an $80 million credit agreement with a bank supporting the nuclear fuel lease. The agreement continues on a year to year basis, unless either party provides at least a three year notice of termination; no such notice of termination has been provided by either party.

Annual nuclear fuel lease expenses include the cost of fuel, based on the quantity of heat produced for the generation of electric energy, plus the lessor's interest costs related to fuel in the reactor and administrative expenses. These expenses (included in "Fuel for production" in the Consolidated Statements of Income) for 1993-1991 were $12.4 million, $12.9 million and $17.5 million, respectively.

The Company's operating lease rental expenses for 1993-1991 were $9.1 million, $7.7 million and $7.4 million, respectively.

The Company's future minimum lease payments by year are as follows:

Year	Capital Lease	Operating Leases
	(in thousands)	
1994	$16,994	$ 7,901
1995	11,970	7,771
1996	10,784	6,191
1997	9,940	4,348
1998	4,145	4,351
1999-2003 ..	4,111	13,013
	57,944	$43,575
Less: Amount representing interest	6,263	
Present value of net minimum capital lease payments	$51,681	

term liquid investments which have maturities of less than 90 days from the date of acquisition.

(f) Depreciation of Utility Property, Plant and Equipment -

The average rates of depreciation for electric and gas properties of Utilities, including Utilities' nuclear generating station, the Duane Arnold Energy Center (DAEC), which is being depreciated over a 36 year life using a remaining life method, were as follows:

	1993	1992	1991
Electric	**3.5%**	3.5%	3.5%
Gas	**3.5%**	3.0%	3.0%

Based on the most recent site specific study, completed in 1992, Utilities' 70% share of the estimated cost to decommission the DAEC and return the underlying property to its original state approximated $223 million in 1992 dollars. The study is based on the prompt removal and dismantling decommissioning alternative and is assumed to begin at the end of the DAEC's operating license in 2014. The level of annual recovery through rates of decommissioning costs is $5.5 million, which is deposited in external trust funds, and is based on a remaining life recovery method. The annual recovery level is reviewed and, if necessary, adjusted in each rate case. Decommissioning costs, at the level collected through rates, are included in "Depreciation and amortization" expense in the Consolidated Statements of Income. In addition to the $28.1 million invested in the external trust funds as indicated in the Consolidated Balance Sheets, Utilities has an internal decommissioning reserve of $21.7 million recorded as accumulated depreciation. Earnings on the external funds are recognized as income and a corresponding amount of interest expense is recorded for the reinvestment of the earnings.

(g) Allowance for Funds Used During Construction -

The allowance for funds used during construction (AFC), which represents the cost during the construction period of funds used for construction purposes, is capitalized by Utilities as a component of the cost of utility plant. The amount of AFC applicable to debt funds and to other (equity) funds, a non-cash item, is computed in accordance with the prescribed FERC formula. The aggregate gross rates used by Utilities for 1993-1991 were 5.7%, 9.2% and 8.5%, respectively.

(h) Oil and Gas Properties -

Whiting Petroleum Company (Whiting), a wholly-owned subsidiary of Diversified, uses the full cost method of accounting for its oil and gas properties. Accordingly, all costs of acquisition, exploration and development of properties are capitalized. Amortization of proved oil and gas properties is calculated using the units of production method. At December 31, 1993, capitalized costs less related accumulated amortization do not exceed the sum of (1) the present value of future net revenue from estimated production of proved oil and gas reserves (calculated using current prices); plus (2) the cost of properties not being amortized, if any; plus (3) the lower of cost or estimated fair value of unproved properties included in the costs being amortized, if any; less (4) income tax effects related to differences in the book and tax basis of oil and gas properties.

(i) Operating Revenues -

The Company accrues revenues for services rendered but unbilled at month-end in order to more properly match revenues with expenses.

(j) Adjustment Clauses -

Utilities' tariffs provide for subsequent adjustments to its electric and natural gas rates for changes in the cost of fuel and purchased energy and in the cost of natural gas purchased for resale. Changes in the under/over collection of these costs are reflected in "Fuel for production" and "Gas purchased for resale" in the Consolidated Statements of Income. The cumulative effects are reflected in the Consolidated Balance Sheets as a current asset or current liability, pending automatic reflection in future billings to customers.

(k) Accumulated Refueling Outage Provision -

The IUB allows Utilities to collect, as part of its base revenues, funds to offset other operating and maintenance expenditures incurred during refueling outages at the DAEC. As these revenues are collected, an equivalent amount is charged to other operating and maintenance expenses with a corresponding credit to a reserve. During a refueling outage, the reserve is reversed to offset the refueling outage expenditures.

(2) MERGERS AND ACQUISITIONS:

(a) Merger of IE and IS -

On June 4, 1993, Industries announced that its wholly-owned utility subsidiaries, IE and IS, filed applications for regulatory authority to merge. The merger became effective December 31, 1993, following receipt of all necessary Boards of Directors, shareholder and regulatory approvals.

IE is the surviving corporation and has been renamed IES Utilities Inc. The separate existence of IS has ceased. Utilities serves a total of 325,000 electric and 170,000 natural gas retail customers as well as 32 resale customers in more than 550 Iowa communities.

The merger was accounted for under a method of accounting similar to pooling of interests, which combined the ownership interests of IE and IS. The assets and liabilities of IE and IS were combined at their recorded amounts as of the merger date.

(b) Merger with Whiting -

Effective February 18, 1992, Whiting merged with a subsidiary of Industries. The merger, which was accounted for as a pooling of interests, was not material to the Consolidated Financial Statements and, accordingly, prior period Consolidated Financial Statements have not been restated and are presented as if the merger had occurred on January 1, 1992.

(5) UTILITY ACCOUNTS RECEIVABLE:

Customer accounts receivable, including unbilled revenues, arise primarily from the sale of electricity and natural gas. At December 31, 1993, Utilities was serving a diversified base of residential, commercial and industrial customers consisting of approximately 325,000 electric and 170,000 gas customers.

Utilities has entered into two agreements, one with limited recourse, to sell undivided fractional interests of an aggregate of $65 million in its pool of utility accounts receivable. At December 31, 1993, $53.2 million was sold under the agreements. The agreements expire in June and December 1994. Utilities intends to consolidate the agreements into one new agreement in 1994.

(6) INCOME TAXES:

The components of Federal and state income taxes for the years ended December 31, were as follows:

	1993	1992	1991
	(in millions)		
Current tax expense	**$27.8**	$25.2	$36.3
Deferred tax expense	**14.1**	1.4	(11.7)
Amortization & adjustment of investment tax credits	**(4.9)**	(2.8)	(2.9)
	$37.0	$23.8	$21.7

The accumulated deferred income taxes as set forth below and in the Consolidated Balance Sheets arise from the following temporary differences:

	December 31 **1993**	1992
	(in millions)	
Property related	**$280**	$262
Investment tax credit related	**(30)**	(32)
Decommissioning related	**(12)**	(11)
Other	**(2)**	(13)
	$236	$206

The overall effective income tax rates shown below were computed by dividing total income tax expense by income before income taxes.

	Year Ended December 31 **1993**	1992	1991
Statutory Federal income tax rate	**35.0%**	34.0%	34.0%
Add (deduct):			
Amortization of investment tax credits	**(2.6)**	(3.9)	(4.3)
State income taxes, net of Federal benefits	**5.5**	5.8	6.6
Property related temporary differences for which deferred taxes are not provided under rate making principles	**1.5**	0.4	2.3
Reversal through tariffs of deferred taxes provided at rates in excess of the current statutory Federal income tax rate	**(1.7)**	(2.4)	(3.9)
Adjustment of prior period taxes	**(2.3)**	(1.6)	(1.7)
Other items, net	**(0.1)**	0.6	(0.3)
Overall effective income tax rate	**35.3%**	32.9%	32.7%

(7) BENEFIT PLANS:

The Company has one contributory and two non-contributory retirement plans which, collectively, cover substantially all of its employees. Plan benefits are generally based on years of service and compensation during the employees' latter years of employment. Payments made from the pension funds to retired employees and beneficiaries during 1993 totaled $10.5 million. In addition to these payments, the Company purchased annuities totaling $6.3 million for all previous employees who had retired as of January 1993, under one of the plans. The cost of the annuities and the reduction in the projected benefit obligation were substantially equivalent.

The Company's policy is to fund the pension cost at an amount which is at least equal to the minimum funding requirements mandated by the Employee Retirement Income Security Act (ERISA) and which does not exceed the maximum tax deductible amount for the year.

Pursuant to the provisions of SFAS 71, certain adjustments to Utilities' pension provision are necessary to reflect the accounting for pension costs allowed in its most recent rate cases.

The components of the pension provision are as follows:

	Year Ended December 31 **1993**	1992	1991
		(in thousands)	
Service cost	**$ 4,342**	$ 4,529	$ 4,587
Interest cost on projected benefit obligation	**11,314**	10,219	9,090
Assumed return on plans' assets	**(12,363)**	(11,872)	(10,163)
Amortization of unrecognized gain	**(767)**	(135)	(20)
Amortization of prior service cost	**1,213**	956	785
Amortization of unrecognized plans' assets as of January 1, 1987	**(389)**	(389)	(38[illegible])
Pension cost	**3,350**	3,308	3,890
Adjustment to funding level	**(2,940)**	294	(237)
Total pension costs paid to the Trustees	**$ 410**	$ 3,602	$ 3,653
Actual return on plans' assets	**$ 12,880**	$ 8,949	$37,638

A reconciliation of the funded status of the plans to the amounts recognized in the Consolidated Balance Sheets is presented below:

	December 31	
	1993	1992
	(in thousands)	
Fair market value of plans' assets	**$176,935**	$ 180,388
Actuarial present value of benefits rendered to date -		
Accumulated benefits based on compensation to date, including vested benefits of $102,621,000 and $92,787,000, respectively	**112,561**	101,929
Additional benefits based on estimated future salary levels	**43,673**	31,897
Projected benefit obligation	**156,234**	133,826
Plans' assets in excess of projected benefit obligation	**20,701**	46,562
Remaining unrecognized net asset existing at January 1, 1987, being amortized over 20 years	**(4,177)**	(5,331)
Unrecognized prior service cost	**16,985**	15,197
Unrecognized net gain	**(29,278)**	(53,513)
Prepaid pension cost recognized in the Consolidated Balance Sheets	**$ 4,231**	$ 2,915
Assumed rate of return, all plans	**8.00%**	8.00%
Weighted average discount rate of projected benefit obligation, all plans	**7.50%**	8.25%
Range of assumed rates of increase in future compensation levels for the plans	**4.00-5.75%**	4.00-5.75%

The decrease in the discount rate used to compute the projected benefit obligation, from 8.25% at December 31, 1992 to 7.50% at December 31, 1993, accounted for a significant portion of the reduction in the unrecognized net gain between periods and, similarly, contributed to the increase in the projected benefit obligation at December 31, 1993.

The Company provides certain benefits to retirees (primarily health care benefits). Through 1992, the Company expensed such costs as benefits were paid, which was consistent with rate making practices. Such costs totaled $2.2 million for 1992 and $2.0 million for 1991.

Effective January 1, 1993, the Company adopted SFAS 106, which requires the accrual of the expected cost of postretirement benefits other than pensions during the employees' years of service. The IUB has adopted rules stating that postretirement benefits other than pensions will be included in Utilities' rates pursuant to the provisions of SFAS 106. The rules permit Utilities to amortize the transition obligation as of January 1, 1993 over 20 years and require that all amounts collected are to be funded into an external trust to pay benefits as they become due. Beginning in 1993, the gas portion of these costs is being recovered in Utilities' gas rates, and is funded in external trust funds; recovery of the electric portion will be addressed in future electric proceedings. The IUB has adopted a rule that permits a deferral of the incremental electric SFAS 106 costs until the earlier of: 1) an order in an electric rate case, or 2) December 31, 1995. Accordingly, pursuant to the provisions of SFAS 71, Utilities had deferred $2.9 million of such costs at December 31, 1993, and it expects to file electric rate cases seeking recovery of the deferred costs before December 31, 1995.

The transition obligation for the non-regulated operations was expensed in 1993 and is reflected in other operating expenses.

The components of postretirement benefit costs for the year ended December 31, 1993, are as follows:

	1993
	(in thousands)
Service cost	**$ 1,744**
Interest cost on accumulated postretirement benefit obligation	**3,363**
Amortization of transition obligation existing at January 1, 1993, for regulated operations	**2,024**
Write-off of transition obligation existing at January 1, 1993, for non-regulated operations	**1,434**
Postretirement benefit costs	**8,565**
Less: Deferred postretirement benefit costs	**2,858**
Net postretirement benefit costs	**$ 5,707**

A reconciliation of the funded status of the plans to the amounts recognized in the Consolidated Balance Sheets is presented below:

	December 31, 1993	January 1, 1993
	(in thousands)	
Fair market value of plans' assets	**$ 1,171**	$ -
Accumulated postretirement benefit obligation -		
Active employees not yet eligible	**19,092**	19,007
Active employees eligible	**4,294**	3,801
Retirees	**20,739**	19,114
Total accumulated postretirement benefit obligation	**44,125**	41,922
Accumulated postretirement benefit obligation in excess of plans' assets	**(42,954)**	(41,922)
Unrecognized transition obligation	**38,463**	41,922
Unrecognized net gain	**(1,175)**	-
Accrued postretirement benefit cost in the Consolidated Balance Sheets	**$ (5,666)**	$ -
Assumed rate of return	**8.0%**	-
Weighted average discount rate of accumulated postretirement benefit obligation	**7.5%**	8.25%
Medical trend on paid charges:		
Initial trend rate	**12.0%**	13.0%
Ultimate trend rate	**6.5%**	8.0%

The assumed medical trend rates are critical assumptions in determining the service cost and accumulated postretirement benefit obligation related to postretirement benefit costs. A 1% change in the medical trend rates, holding all other assumptions constant, would have changed the 1993 service cost by $1.1 million (22%) and the accumulated postretirement benefit obligation at December 31, 1993 by $6.9 million (16%).

The Company will adopt the provisions of SFAS 112 "Employers' Accounting for Postemployment Benefits" as of January 1, 1994 and its adoption will not have a material effect on the Company's financial position or results of operations. This statement requires that benefits offered to former or inactive employees after termination of employment, but before retirement, be accrued over the service lives of the employees if all of the following conditions are met: 1) the obligation relates to services already performed, 2) the employees' rights vest, 3) the payments are probable, and 4) the amounts are reasonably determinable. Otherwise, such obligations are to be recognized at the time they become probable and reasonably determinable. The Company has generally accounted for these obligations as they were paid.

(8) COMMON STOCK:

In the first quarter of 1993, Industries sold 2.3 million shares of its common stock in a public offering. The shares were priced at $30 per share. Net proceeds to Industries from this sale were approximately $67 million.

The following table presents information relating to the issuance of common stock.

	Common Stock	
	Number of Shares Outstanding	Amount
		(in thousands)
Balance, December 31, 1990	23,975,082	$ 251,793
Stock plan issuances*	325,858	8,705
Adjustments**	(2,133)	(84)
Balance, December 31, 1991	24,298,807	260,414
Stock plan issuances*	404,324	11,473
Shares issued in conjunction with the Whiting merger	853,832	7,923
Balance, December 31, 1992	25,556,963	279,810
Public offering	2,300,000	66,555
Stock plan issuances*	447,225	13,936
Balance, December 31, 1993	28,304,188	$ 360,301
Shares reserved for issuance pursuant to the Company's stock plans at December 31, 1993*	2,736,763	

* Dividend Reinvestment and Stock Purchase Plan, Employee Stock Purchase Plans, Employee Savings Plan, Long-Term Incentive Plan of 1987, IES Bonus Stock Ownership Plan and Whiting Stock Option Plans.

** Primarily relates to cash payments for fractional shares to Iowa Southern Inc. shareholders pursuant to the July 1, 1991 merger.

Effective with its 1992 merger with Whiting, Industries issued stock options to replace existing stock options held by Whiting stockholders. At December 31, 1993, there were options outstanding to purchase 6,340 shares of Industries' common stock at option prices ranging from $9.70 to $18.40 per share, expiring in February 2000.

(9) PREFERRED AND PREFERENCE STOCK:

Utilities has 466,406 shares of Cumulative Preferred Stock, $50 par value, authorized for issuance at December 31, 1993, of which the 6.10%, 4.80% and 4.30% Series had 100,000, 146,406 and 120,000 shares, respectively, outstanding at both December 31, 1993 and 1992. These shares are redeemable at the option of Utilities upon 30 days notice at $51.00, $50.25 and$51.00 per share, respectively, plus accrued dividends.

In addition, there are 5,000,000 shares of Industries Cumulative Preferred Stock (no par value) and 700,000 shares of Utilities Cumulative Preference Stock ($100 par value) authorized for issuance, of which none were outstanding at December 31, 1993.

(10) DEBT:

(a) Long-Term Debt -

In November 1993, Utilities entered into arrangements with various cities in the State of Iowa (Cities), whereby the Cities issued an aggregate of $19.4 million of pollution control revenue refunding bonds (PCRRBs), all at 5.5%, due 2023. Each series of the PCRRBs is secured, in part, by payments on a corresponding principal amount of Utilities Collateral Trust Bonds, at 5.5%, due 2023. The proceeds received by Utilities in the transaction were used to redeem $10.2 million of Pollution Control Obligations, 5.75%, due serially 1995-2003 and an aggregate of $9.2 million of First Mortgage Bonds, Series P & Q, 6.7%, due 2006.

In October 1993, Utilities sold $100 million aggregate principal amount of Collateral Trust Bonds, 6% Series, due 2008, and 7% Series, due 2023. A portion of the proceeds from the Collateral Trust Bonds was used to retire short-term debt, with the balance used for general corporate purposes, including support of Utilities' construction program.

In May 1993, Utilities redeemed First Mortgage Bonds Series K, 8-5/8%, principal amount of $20 million, and Series R, 8-1/4%, principal amount of $25 million and First Mortgage Bonds Series 8-3/4%, principal amount of $15 million. The redemptions were completed with proceeds from short-term borrowings and, as discussed above, long-term debt was ultimately issued to replace the short-term borrowings.

In January 1993, $13 million of the Industries Series 1986, 8-1/8% Debentures (originally scheduled to mature in September 1993) were redeemed and a defeasance was completed for the remainder of the debentures ($32 million).

In January 1993, Diversified expanded its variable rate credit facility to $100 million. At December 31, 1993, $32 million was borrowed at 3.5625% under this facility and was due January 21, 1994. The credit facility extends through January 1997, with a one-year extension available to Diversified. Interest rates and maturities are set at the time of borrowing. The interest rate options are based upon quoted market rates and the maturities are less than one year. Diversified intends to continue borrowing under the renewal options of the facility and, accordingly, this debt is classified as long-term in the Consolidated Balance Sheets.

Utilities' Indentures and Deeds of Trust securing its First Mortgage Bonds constitute direct first mortgage liens upon substantially all tangible public utility property. Utilities' Indenture and Deed of Trust securing its Collateral Trust Bonds constitutes a second lien on substantially all tangible public utility property while First Mortgage Bonds remain outstanding.

Total sinking fund requirements, which Utilities intends to meet by pledging additional property under the terms of Utilities' Indentures and Deeds of Trust, and debt maturities for 1994-1998 are as follows:

	Debt Maturities (in thousands)				
Debt Issue	1994	1995	1996	1997	1998
Utilities -					
Sinking Fund Requirements	$ 780	$ 780	$ 630	$ 550	$ 550
Pollution Control	224	140	140	140	140
Series W	-	50,000	-	-	-
Series X	-	50,000	-	-	-
Series J	-	-	15,000	-	-
6-1/8% Series	-	-	-	8,000	-
Diversified -					
Variable Rate Credit Facility	32,000	-	-	-	-
Other Subsidiaries' Debt	240	8,246	52	57	62
Total	$33,244	$109,166	$15,822	$ 8,747	$ 752

The Company intends to refinance the majority of the debt maturities with long-term debt.

(b) Short-Term Debt -

At December 31, 1993, the Company had bank lines of credit aggregating $77.7 million (Industries - $1.5 million, Utilities - $67.7 million, Diversified - $7.5 million and Whiting - $1.0 million). Utilities was using $19.0 million to support commercial paper and $7.7 million to support certain pollution control obligations. Commitment fees are paid to maintain these lines and there are no conditions which restrict the unused lines of credit. In addition to the above, Utilities has an uncommitted credit facility with a financial institution whereby it can borrow up to $50 million. Rates are set at the time of borrowing and no fees are paid to maintain this facility. At December 31, 1993, $5.0 million was borrowed at 3.4% under this facility. Utilities also has a letter of credit in the amount of $3.4 million supporting two of its variable rate pollution control obligations.

(11) ESTIMATED FAIR VALUE OF FINANCIAL INSTRUMENTS:

The estimated fair values of financial instruments at December 31, 1993, and the basis upon which they were estimated are as follows:

(a) Current assets and current liabilities -

The carrying amount approximates fair value because of the short maturity of such financial instruments.

(b) Nuclear decommissioning trust funds -

The estimated fair value of these trust funds, as reported by the trustee based upon current market values, is $29.5 million.

(c) Cumulative preferred stock of Utilities -

The estimated fair value of this stock of $12.8 million is based upon quoted market prices.

(d) Long-term debt -

The carrying amount of long-term debt was $523 million compared to estimated fair value of $550 million. The estimated fair value of long-term debt is based upon quoted market prices.

Since Utilities is subject to regulation, any gains or losses related to the difference between the carrying amount and the fair value of financial instruments may not be realized by the Company's shareholders.

(12) COMMITMENTS AND CONTINGENCIES:

(a) Construction Program -

The Company's construction and acquisition program anticipates expenditures of approximately $203 million for 1994, which includes $150 million at Utilities and $53 million at Diversified. Substantial commitments have been made in connection with such expenditures.

(b) Purchase Power Contracts -

Utilities has a purchase power contract with Terra Comfort Company (Terra Comfort), a wholly-owned subsidiary of Diversified, for annual capacity purchases of 114 Mw that expires on December 31, 1994.

In connection with the acquisition of the UE properties discussed in Note 2(c), Utilities is purchasing power from UE under a five-year firm capacity contract with a 1994 requirement of 120 Mw of delivered capacity declining to 60 Mw in 1997. Utilities will also purchase an additional maximum interruptible capacity of up to 54 Mw of 25 Hz power. This 25 Hz power purchase will extend through 1998 and will continue thereafter unless either party gives a three-year notice of cancellation.

The costs of capacity purchases for these contracts are reflected in "Purchased power" and Terra Comfort's revenue related to its contract is included in "Other revenues" in the Consolidated Statements of Income.

Total capacity charges under all existing contracts will approximate $21.0 million, $14.7 million, $11.4 million, $8.7 million and $0.3 million for the years 1994-1998, respectively.

(c) Coal Contract Commitments -

Utilities has entered into coal supply contracts which expire between 1994 and 2001 for its fossil-fueled generating stations. At December 31, 1993, the contracts cover approximately $147 million of coal over the life of the contracts, which includes $34 million expected to be incurred in 1994. Utilities expects to supplement these coal contracts with spot market purchases to fulfill its future fossil fuel needs.

(d) Information Technology Services -

In 1992, the Company entered into an agreement with Electronic Data Systems Corporation (EDS) for information technology services. The term of the contract is twelve years and the contract is subject to declining termination fees. The Company's anticipated expenditures under the agreement for 1994 are estimated to be approximately $9.4 million. Future costs under the agreement are variable and are dependent upon the Company's level of usage of technological services from EDS, as well as inflation.

(e) Nuclear Insurance Programs -

The Price-Anderson Amendments Act of 1988 (1988 Act) provides Utilities with the benefit of $9.4 billion of public liability coverage consisting of $200 million of insurance and $9.2 billion of potential retroactive assessments from the owners of nuclear power plants. Under the 1988 Act, Utilities could be assessed a maximum of $79 million per nuclear incident, with a maximum of $10 million per year (of which Utilities' 70% ownership portion would be $55 million and $7 million, respectively) if losses relating to the incidents exceeded $200 million. These limits are subject to adjustments for inflation in future years.

Pursuant to provisions in various nuclear insurance policies, Utilities could be assessed retroactive premiums in connection with future accidents at a nuclear facility owned by a utility participating in the particular insurance plan. With respect to excess property damage and replacement power coverages, Utilities could be assessed annually a maximum of $8.5 million and $1 million, respectively, if the insurer's losses relating to accidents exceeded its reserves. While assessments may also be made for losses in certain prior years, Utilities is not aware of any losses in such years that it believes are likely to result in an assessment.

(f) Environmental Liabilities -

At December 31, 1993, the Company's Consolidated Balance Sheet reflects $13.5 million (including $4.2 million as current) of environmental liabilities, which, pursuant to generally accepted accounting principles, represents the minimum amount of the estimated range of such costs that the Company expects to incur. The minimum amount of the range is used because no amount within the range represents a better estimate. These estimates are subject to continuing review.

Utilities has been named as a Potentially Responsible Party (PRP) for certain former manufactured gas plant (FMGP) sites by either the Iowa Department of Natural Resources (IDNR) or the Environmental Protection Agency (EPA). Utilities is working with the IDNR and EPA to investigate its 27 sites and to determine the appropriate remediation activities that may be needed to mitigate health and environmental concerns. Such investigations are expected to be completed by 1999 and site-specific remediations are anticipated to be completed within three years after the completion of the investigations of each site. Utilities may be required to monitor these sites for a number of years upon completion of remediation.

Utilities is investigating the possibility of insurance and third party cost sharing for FMGP clean-up costs. The amount of shared costs, if any, can not be reasonably determined and, accordingly, no potential sharing has been recorded. Regulatory assets of $12.9 million have been recorded in the Consolidated Balance Sheets, which reflects the future recovery that is being provided through Utilities' rates (See Note 1(c)). Considering the recorded reserves for environmental liabilities and the past rate treatment allowed by the IUB, management believes that the clean-up costs incurred by Utilities for these FMGP sites will not have a material adverse effect on its financial position or results of operations.

(g) Clean Air Act -

The Clean Air Act Amendments Act of 1990 (Act) requires emission reductions of sulfur dioxide and nitrogen oxides to achieve reductions of atmospheric chemicals believed to cause acid rain. The provisions of the Act will be implemented in two phases with Phase I affecting two of Utilities' units beginning in 1995 and Phase II affecting all units beginning in the year 2000.

Utilities expects to meet the requirements of the Act by switching to lower sulfur fuels and through capital expenditures primarily related to fuel burning equipment and boiler modifications. Utilities estimates capital expenditures at approximately $28 million, including $4 million in 1994, in order to meet these requirements of the Act.

(h) National Energy Policy Act of 1992 -

The National Energy Policy Act of 1992 requires owners of nuclear power plants to pay a special assessment into a "Uranium Enrichment Decontamination and Decommissioning Fund." The assessment is based upon prior nuclear fuel purchases and, for the DAEC, averages $1.3 million annually through 2007, of which Utilities' 70% share is $0.9 million. Utilities is recovering the costs associated with this assessment through its electric fuel adjustment clauses over the period the costs are assessed. Utilities' 70% share of the future assessment, $12.7 million payable through 2007, has been recorded as a liability in the Consolidated Balance Sheets, including $0.7 million included in "Current liabilities - other," with a related regulatory asset for the unrecovered amount (See Note 1(c)).

(i) FERC Order No. 636 -

The FERC issued Order No. 636 (Order 636) in 1992. Order 636, as modified on rehearing, (1) requires Utilities' pipeline suppliers to unbundle their services so that gas supplies are obtained separately from transportation service, and transportation and storage services are operated and billed as separate and distinct services, (2) requires the pipeline suppliers to offer "no notice" transportation service under which firm transporters (such as Utilities) can receive delivery of gas up to their contractual capacity level on any day without prior scheduling, (3) allows pipelines to abandon long-term (one year or more) transportation service to a customer whenever the customer fails to match the highest rate and longest term (up to 20 years) offered to the pipeline by other customers for the particular capacity, and (4) provides for a mechanism under which pipelines can recover prudently incurred transition costs associated with the restructuring process. Utilities may benefit from enhanced access to competitively priced gas supply and more flexible transportation services as a result of Order 636. However, Utilities will be required to pay certain transition costs passed on from its pipeline suppliers as they implement Order 636.

Utilities' three pipeline suppliers have filed new tariffs with the FERC implementing Order 636 and the pipelines have also made filings with the FERC to begin collecting their respective transition costs. Utilities began paying the transition costs in November 1993, and has recorded a liability of $5.0 million for such transition costs that have been incurred by the pipelines to date, including $1.7 million expected to be billed in 1994. While the magnitude of the total transition costs to be charged to Utilities cannot yet be determined, Utilities believes any transition costs the FERC would allow the pipelines to collect would be recovered from its customers, based upon past regulatory treatment of similar costs by the IUB. Accordingly, regulatory assets, in amounts corresponding to the liabilities, have been recorded to reflect the anticipated recovery.

(13) JOINTLY-OWNED ELECTRIC UTILITY PLANT:

Under joint ownership agreements with other Iowa utilities, Utilities has undivided ownership interests in jointly-owned electric generating stations and related transmission facilities. Each of the respective owners is responsible for the financing of its portion of the construction costs. Kilowatt-hour generation and operating expenses are divided on the same basis as ownership with each owner reflecting its respective costs in its Statements of Income. Information relative to Utilities' ownership interest in these facilities at December 31, 1993 is as follows:

	DAEC	Ottumwa Unit 1	Neal Unit 3
		($ in millions)	
Utility plant in service	$ 484	$ 179	$ 43
Accumulated depreciation	$ 221	$ 69	$ 22
Construction work in progress	$ 7	$ -	$ -
Plant capacity - Mw	530	708	515
Percent ownership	70%	48%	28%
In-service date	1974	1981	1975

(14) SEGMENTS OF BUSINESS:

The principal business segments of Industries are the generation, transmission, distribution and sale of electric energy by Utilities and the purchase, distribution and sale of natural gas by Utilities and Industrial Energy Applications, Inc., a wholly-owned subsidiary of Diversified. Certain financial information relating to Industries' significant segments of business is presented below:

	Year Ended December 31		
	1993	1992	1991
		(in thousands)	
Operating results:			
Revenues -			
Electric	**$ 550,521**	$ 462,999	$ 482,578
Gas	**181,923**	167,082	146,237
Operating income -			
Electric	**128,994**	90,891	100,402
Gas	**13,673**	9,164	65*
Other information:			
Depreciation and amortization -			
Electric	**63,832**	59,707	57,612
Gas	**5,186**	4,024	3,480
Construction and acquisition expenditures -			
Electric	**84,720**	154,902	77,646
Gas	**12,582**	17,323	21,100
Assets -			
Identifiable assets -			
Electric	**1,288,505**	1,226,614	1,115,310
Gas	**168,800**	147,395	113,670
	1,457,305	1,374,009	1,228,980
Other corporate assets	**242,514**	220,373	219,512
Total consolidated assets	**$1,699,819**	$1,594,382	$ 1,448,492

*Includes a $3.9 million pre-tax write-off of previously deferred FMGP clean-up costs pursuant to disallowance of recovery in an IUB order.

SELECTED CONSOLIDATED FINANCIAL DATA

	1993	1992	1991	1990	1989	1988
Income statement data (000's):						
Operating revenue	**$ 801,266**	$ 678,296	$ 661,538	$ 624,214	$ 599,838	$ 606,320
Operating income	**151,269**	109,024	103,357	98,043	106,592	101,555
Net income	**67,938**	48,711	44,657	80,330*	53,565	52,563
Common stock data (per share except percentages):						
Earnings	**$ 2.45**	$ 1.92	$ 1.85	$ 3.37	$ 2.27	$ 2.26
Dividends declared	**2.10**	2.10	2.03	1.82	1.77	1.74
Return on average common equity	**12.4%**	10.3%	9.7%	18.4%	13.2%	13.6%
Market price at year-end	**$31.25**	$29.50	$27.25	$27.75	$27.63	$22.63
Book value at year-end	**20.21**	18.89	19.07	19.15	17.52	16.95
Ratio of market price to book value at year-end	**155%**	156%	143%	145%	158%	134%
Capitalization:						
Common equity	**51%**	48%	50%	53%	49%	48%
Preferred and preference stock	**2**	2	3	3	4	4
Long-term debt	**47**	50	47	44	47	48
	100%	100%	100%	100%	100%	100%
Other selected financial data:						
Total assets (000's)	**$1,699,819**	$1,594,382	$1,448,492	$1,400,802	$1,342,615	$1,279,212
Non-utility assets (000's)	**152,841**	155,144	145,283	141,739	127,684	99,480
Construction expenditures (000's)	**163,644**	191,834**	119,821	103,154	87,381	81,810
Times interest earned before income taxes	**3.38**	2.63	2.69	4.45	3.10	3.13
Selected financial data for IES Utilities Inc.:						
Utility plant in service (000's)	**$1,931,079**	$1,852,733	$1,680,108	$1,587,886	$1,475,550	$1,416,337
Accumulated Depreciation (000's)	**813,312**	759,754	691,015	639,211	579,160	534,131
Construction expenditures (000's)	**113,212**	171,013**	105,009	95,075	79,919	72,923
Times interest earned before income taxes	**3.64**	2.67	2.93	3.04	3.36	3.20
Electric Kwh sales (excluding off-system) (000's)	**8,905,522**	7,132,671	7,244,209	6,880,136	6,671,474	6,759,725
Gas Dth sales (including transported volumes) (000's)	**39,006**	37,035	37,129	36,486	40,050	39,374

* Includes a pre-tax gain of $66 million on sale of Telecom★USA stock.
** Includes $61 million for the acquisition of the Iowa service territory from Union Electric Company.

ELECTRIC OPERATING COMPARISON

	1993	1992	1991	1990	1989	1988	Five year compound rate of growth (1)
Operating revenue (000's):							
Residential and Rural	**$ 206,561**	$ 177,625	$ 189,194	$ 185,302	$ 175,899	$ 180,520	
Commercial	**145,898**	124,829	124,320	119,908	112,662	110,587	
Industrial	**137,595**	103,886	100,733	97,788	94,222	97,723	
Street lighting and public authorities	**6,098**	5,410	6,332	6,478	6,282	6,378	
Total from ultimate consumers	**496,152**	411,750	420,579	409,476	389,065	395,208	
Sales for resale	**20,254**	18,602	19,745	19,582	18,214	17,104	
Off-system	**29,400**	28,304	36,596	31,144	28,281	30,332	
Other	**4,715**	4,343	5,658	3,047	2,973	3,015	
	$ 550,521	$ 462,999	$ 482,578	$ 463,249	$ 438,533	$ 445,659	
Energy sales (000's Kwh):							
Residential and Rural	**2,528,220**	2,158,768	2,367,979	2,254,913	2,222,152	2,269,001	2.2%
Commercial	**2,078,635**	1,771,357	1,764,495	1,686,132	1,626,046	1,579,086	5.7
Industrial	**3,674,217**	2,612,803	2,467,533	2,312,109	2,236,388	2,359,596	9.3
Street lighting and public authorities	**63,174**	60,991	87,022	88,305	86,635	88,870	(6.6)
Total to ultimate consumers	**8,344,246**	6,603,919	6,687,029	6,341,459	6,171,221	6,296,553	5.8
Sales for resale	**561,276**	528,752	557,180	538,677	500,253	463,172	3.9
Sales of electricity to customers	**8,905,522**	7,132,671	7,244,209	6,880,136	6,671,474	6,759,725	5.7
Off-system	**2,068,015**	2,275,616	2,738,159	2,282,204	1,959,828	2,075,037	(0.1)
	10,973,537	9,408,287	9,982,368	9,162,340	8,631,302	8,834,762	4.4%
Sources of electric energy (000's Kwh):							
Generation -							
Fossil, primarily coal	**5,356,930**	4,317,154	4,758,720	4,354,697	4,063,974	4,403,738	
Nuclear (2)	**2,264,507**	2,402,501	2,902,768	2,108,100	2,228,068	2,214,243	
Hydro	**7,201**	7,579	6,547	4,195	1,902	3,300	
	7,628,638	6,727,234	7,668,035	6,466,992	6,293,944	6,621,281	
Purchases	**3,949,296**	3,322,182	2,994,216	3,282,886	2,891,808	2,810,225	
	11,577,934	10,049,416	10,662,251	9,749,878	9,185,752	9,431,506	
Net capability at time of peak load (Kw)-							
Generating capability	**1,733,700**	1,718,600	1,719,150	1,684,700	1,633,000	1,632,500	
Purchase capability	**248,000**	207,000	227,000	179,000	170,000	90,000	
Capacity credits (3)	—	—	—	18,960	20,650	—	
	1,981,700	1,925,600	1,946,150	1,882,660	1,823,650	1,722,500	2.8%
Net peak load (Kw) (4)	**1,716,380**	1,425,441	1,607,606	1,547,826	1,486,243	1,543,864	2.1%
Number of customers at year-end	**327,265**	325,172	305,663	304,265	302,632	300,701	1.7%
Revenue per Kwh (excluding off-system) in cents	**5.85**	6.09	6.16	6.28	6.15	6.14	

(1) The five-year compound growth rates include the effect of the acquisition of the Iowa service territory from Union Electric Company on December 31,1992.
(2) Represents IES Utilities' 70% undivided interest in the Duane Arnold Energy Center which is operated by IES Utilities.
(3) Represents capacity credits from municipals served by IES Utilities.
(4) 60 minutes integrated.

GAS OPERATING COMPARISON

	1993	1992	1991	1990	1989	1988	Five year compound rate of growth
Operating revenue (000's):							
Residential	**$ 90,462**	$ 78,685	$ 74,114	$ 66,513	$ 68,751	$ 71,484	
Commercial	**45,528**	39,780	37,613	35,378	38,035	38,918	
Industrial	**15,593**	18,649	17,383	21,500	25,172	24,693	
	151,583	137,114	129,110	123,391	131,958	135,095	
Other	**2,735**	2,341	1,908	1,884	1,923	1,514	
	154,318	139,455	131,018	125,275	133,881	136,609	
Brokerage	**27,605**	27,627	15,219	6,808	1,049	826	
	$181,923	$167,082	$146,237	$132,083	$134,930	$137,435	
Energy sales (000's dekatherms):							
Residential	**16,971**	15,098	15,571	14,315	15,878	15,573	1.7%
Commercial	**10,133**	8,479	9,389	8,798	9,854	9,523	1.2
Industrial	**4,618**	6,175	5,980	6,640	7,409	7,780	(9.9)
	31,722	29,752	30,940	29,753	33,141	32,876	(0.7)
Industrial – transported volumes	**7,284**	7,283	6,189	6,733	6,909	6,498	2.3
Total volumes delivered by Utilities	**39,006**	37,035	37,129	36,486	40,050	39,374	(0.2)
Brokerage	**12,493**	14,830	7,666	4,465	624	491	91.0
	51,499	51,865	44,795	40,951	40,674	39,865	5.3%
Operating Statistics for IES Utilities Inc.:							
Cost per dekatherm of gas purchased for resale	**$3.49**	$3.36	$3.10	$3.23	$2.95	$3.42	
Sendout capability at time of peak demand (dekatherms in 000's)	**274,570**	273,270	266,563	267,443	271,140	300,231	(1.8)%
Peak daily sendout (dekatherms in 000's)	**268,419**	254,989	266,344	272,089	311,600	286,196	(1.3)%
Number of customers at year-end	**170,719**	167,813	164,078	161,794	160,792	159,931	1.3%
Revenue per dekatherm sold for IES Utilities Inc. (excluding transported volumes)	**$4.78**	$4.61	$4.17	$4.15	$3.98	$4.11	

Standing: David Q. Reed, C.R.S. Anderson, Blake O. Fisher, Jr., J. Wayne Bevis, Robert W. Schlutz
Seated: Dr. George Daly, Robert D. Ray, Lee Liu

Annual Meeting

The annual meeting of the shareholders will be held at 2:00 p.m., Central Daylight Time on Tuesday, May 17, 1994 at the IE Tower, 6th floor, 200 First Street S.E. in Cedar Rapids, Iowa. A proxy statement with respect to this meeting will be mailed on or about April 4, 1994. All common shareholders are cordially invited to attend. However, those who are unable to attend in person are urged to promptly sign and return their proxy.

Stock Exchange Listing

IES Industries Inc. common stock is listed on the New York Stock Exchange under the symbol IES. Newspaper listings often use the symbol IES IND.

General Inquiries

Shareholder inquiries, including the replacement of dividend checks, address changes, transfer or reissuance of stock certificates, and requests from the general public for any financial publications may be directed to:

IES Industries Inc.
Attn.: Shareholder Services P.O. Box 351 Cedar Rapids, Iowa 52406
1-800-247-9785 or 319-398-7755

Where to Buy and Sell Stock

Common stock may be purchased and sold privately or on the open market through a brokerage firm. A shareholder enrolled in the Company's Dividend Reinvestment and Stock Purchase Plan can purchase additional common stock with no brokerage fees through the optional cash feature of the Plan.

Shares held in the Dividend Reinvestment and Stock Purchase Plan can be sold through the Plan Administrator upon written request of the shareholder, who will receive all proceeds of the sales less any brokerage commission.

Board of Directors

C.R.S. Anderson (E) (A)
Retired Chairman of the Board of the Company

J. Wayne Bevis (A)
Vice Chairman & Chief Executive Officer, Pella Corporation (Window and Door Manufacturing), Pella, Iowa

Robert F. Brewer
Retired Chairman of the Board & Chief Executive Officer, Iowa Southern Utilities Company, Centerville, Iowa

Dr. George Daly (C)
Dean, Leonard Stern School of Business, New York University, New York, New York

Blake O. Fisher, Jr.
Executive Vice President & Chief Financial Officer of the Company

G. Sharp Lannom, IV (C)
President & Chief Executive Officer, DeLong Sportswear, Inc. (Sportswear Manufacturing), Grinnell, Iowa

Dr. Salomon Levy (C)
Chairman & Chief Executive Officer, S. Levy Incorporated (Engineering and Management Consulting), Campbell, California

Lee Liu (E) (N)
Chairman of the Board, President & Chief Executive Officer of the Company

René H. Malès
President and Group Executive, Generation and Engineering Group of IES Utilities Inc.

Robert D. Ray (A) (N)
President & Chief Executive Officer, Blue Cross and Blue Shield of Iowa (Insurance), Des Moines, Iowa

David Q. Reed (E)(N)
Attorney and Counselor at Law, Kansas City, Missouri

Larry D. Root
President and Group Executive, Energy Delivery and Nuclear Group of IES Utilities Inc.

Henry Royer (E) (C)
Chairman of the Board & President, Firstar Bank of Cedar Rapids, N.A., Cedar Rapids, Iowa

Robert W. Schlutz (A)
President, Schlutz Enterprises (Diversified Farming and Retailing), Columbus Junction, Iowa

Anthony R. Weiler (N)
Chairman & Chief Executive Officer, Chittenden & Eastman Company (Furniture Manufacturer and Distributor), Burlington, Iowa

DIRECTOR EMERITUS
Richard E. Scherling
Retired Merchant, Cedar Rapids, Iowa

(E) Member Executive Committee
(A) Member Audit Committee
(N) Member Nominating Committee
(C) Member Compensation Committee

OFFICERS*

IES INDUSTRIES INC.

Lee Liu *(60, 36)*
Chairman of the Board, President & Chief Executive Officer

Blake O. Fisher, Jr. *(49, 3)*
Executive Vice President & Chief Financial Officer

Dr. Robert J. Latham *(51, 10)*
Senior Vice President, Finance and Corporate Affairs, & Treasurer

Stephen W. Southwick *(47, 18)*
Vice President & General Counsel

Robert J. Kucharski *(61, 19)*
Vice President, Administration & Secretary

Thomas R. Seldon *(55, 6)*
Vice President, Human Resources

Dean Ekstrom *(46, 8)*
Vice President, Management Systems

Peter W. Dietrich *(54, 6)*
Vice President, Corporate Development

Richard A. Gabbianelli *(37, 11)*
Controller & Chief Accounting Officer

IES UTILITIES INC.

Lee Liu *(60, 36)*
Chairman of the Board, President & Chief Executive Officer

Larry D. Root *(57, 23)*
President and Group Executive, Energy Delivery and Nuclear Group

René H. Malès *(61, 3)*
President and Group Executive, Generation and Engineering Group

Blake O. Fisher, Jr. *(49, 3)*
Executive Vice President & Chief Financial Officer

Dr. Robert J. Latham *(51, 10)*
Senior Vice President, Finance and Corporate Affairs, & Treasurer

Stephen W. Southwick *(47, 18)*
Vice President & General Counsel

John F. Franz, Jr. *(54, 2)*
Vice President, Nuclear

Philip D. Ward *(53, 20)*
Vice President, Engineering

Harold W. Rehrauer *(56, 21)*
Vice President, Field Operations

Thomas R. Seldon *(55, 6)*
Vice President, Human Resources

Robert J. Kucharski *(61, 19)*
Vice President, Administration & Secretary

Richard A. Gabbianelli *(37, 11)*
Controller & Chief Accounting Officer

Figures in parenthesis represent age and years of service

** Effective February 1, 1994*

TRUSTEE

The First National Bank of Chicago
Chicago, Illinois

IES Utilities Inc.
Iowa Electric Light and Power Company —
Mortgage and Deed of Trust dated August 1, 1940
Mortgage and Deed of Trust dated September 1, 1993
Iowa Southern Utilities Company —Deed of Trust

DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

The Company has a Dividend Reinvestment and Stock Purchase Plan which allows shareholders to automatically reinvest their cash dividends in additional shares of common stock. IES Industries Inc., Shareholder Services, P.O. Box 351, Cedar Rapids, Iowa 52406 acts as the Plan Administrator. A prospectus describing the Plan can be obtained by writing to Shareholder Services.

DUPLICATE ACCOUNTS AND MAILINGS

Shareholders sometimes receive more than one Annual Report because shares owned by one shareholder may be registered with slight variations in names. The Company is required to mail an Annual Report to each name on the shareholder list unless the shareholder requests that duplicates be eliminated. To eliminate duplicate mailings, please send a written request to Shareholder Services.

1993 FORM 10-K AVAILABLE ON REQUEST

The Company files annually with the Securities and Exchange Commission an Annual Report Form 10-K. This required report contains certain other information not made a part of this report. The Company will be happy to send you a copy of our 1993 Form 10-K without charge. Requests should be made to Shareholder Services.

DIVIDEND PAYMENT DATES

Scheduled Dividend Payment and Record Dates for 1994 are:

Record Dates	March 11, 1994	June 10, 1994	September 9, 1994	December 9, 1994
Payment Date	April 1, 1994	July 1, 1994	October 1, 1994	January 1, 1995

Dividends paid on common stock in 1993 were fully taxable for federal income tax purposes.

TRANSFER AGENT & REGISTRAR

IES Industries Inc. Stock Transfer Dept 300 Sheridan Avenue, Centerville, Iowa 52544
1-800-627-9070 or 515-437-5205
IES Industries Inc. – Common Stock
IES Utilities Inc.– Preferred Stock

Standing: Larry D. Root, Henry Royer, G. Sharp Lannom, IV, René H. Malès
Seated: Robert F. Brewer, Dr. Salomon Levy, Anthony R. Weiler